Copy

Mountain States Health Alliance Johnson City Medical Center

CN1409-039



September 12, 2014

Ms. Melanie Hill Health Services and Development Agency Andrew Jackson Building, Ninth Floor 502 Deaderick Street Nashville, TN 37243

Dear Ms. Hill:

Please find enclosed the original and two copies of Johnson City Medical Center's letter of intent for the relocation of Princeton Transitional Care from its current location at Quillen Rehabilitation Hospital (2511 Wesley Street Johnson City, TN 37601) to Johnson City Medical Center at 400 N State of Franklin Rd, Johnson City, TN 37604.

We would like to request consideration that this project be placed on the consent agenda as it only involves the relocation of an existing service 4 miles away within Washington County and the existing service (Princeton Transitional Care), the current location (Quillen Rehabilitation Hospital) and the proposed location (Johnson City Medical Center) are under the same ownership of Mountain States Health Alliance

If you have any questions please do not hesitate to contact me at 423-302-3378. I look forward to working with you throughout this process.

Sincerely,

Allison M. Rogers

Vice-President, Strategic Planning

allisar M. Passers



Accounts Payable 400 N. State of Franklin Road Johnson City, TN 37604 First Tennessee Bank 87-434/642 Check No. 852436

O9/08/2014

\$ ****3,000.00

PAY Three Thousand AND 00/100

TO THE ORDER OF TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY 500 DEADERICK STREET SUITE 500 NASHVILLE TN 37243

Authorized Signature

Checks over \$50,000.00 require a second signature.

#OOB52436# 1:064204347# 100394898#

Mountain States Health Alliance • 400 N. State of Franklin Road, Johnson City, TN 37604

| INVOICE | INVOICE DATE | GROSS AMOUNT | DISCOUNT | NET AMOUNT |
|---|--------------|--------------|----------|------------|
| 090814 FILING FEE TO SUBMIT CERTIFICATE OF NEED TO MOVE PRINCETON TRANSITIONAL CARE FROM QUILLED REHAB HOSPITAL TO JOHNSON CITY MEDICAL CENTER | 09/08/14 | \$3,000.00 | \$0.00 | \$3,000.00 |
| | | | | |
| | | | | |
| | | | | |

| | VENDOR NUMBER | VENDOR NAME | CHECK NUMBER | CHECK DATE | TOTAL AMOUNT |
|---|---------------|---------------------------|--------------|------------|--------------|
| S | 212843 | TENNESSEE HEALTH SERVICES | 852436 | 09/08/2014 | \$3,000.00 |

MOUNTAIN STATES HEALTH ALLIANCE

Princeton Transitional Care Relocation Project

Certificate of Need Application September 15th, 2014

Prepared for:

Tennessee Health Services and Development Agency Andrew Jackson Building, Ninth Floor 502 Deaderick Street Nashville, TN 37243 615.741.2364

Contact:

Allison Rogers 423.302.3378

SECTION A:

APPLICANT PROFILE

Please enter all Section A responses on this form. All questions must be answered. If an item does not apply, please indicate "N/A". Attach appropriate documentation as an Appendix at the end of the application and reference the applicable Item Number on the attachment.

For Section A, Item 1, Facility Name <u>must be</u> applicant facility's name and address <u>must be</u> the site of the proposed project.

For Section A, Item 3, Attach a copy of the partnership agreement, or corporate charter <u>and</u> certificate of corporate existence, if applicable, from the Tennessee Secretary of State.

For Section A, Item 4, Describe the existing or proposed ownership structure of the applicant, including an ownership structure organizational chart. Explain the corporate structure and the manner in which all entities of the ownership structure relate to the applicant. As applicable, identify the members of the ownership entity and each member's percentage of ownership, for those members with 5% or more ownership interest. In addition, please document the financial interest of the applicant, and the applicant's parent company/owner in any other health care institution as defined in Tennessee Code Annotated, §68-11-1602 in Tennessee. At a minimum, please provide the name, address, current status of licensure/certification, and percentage of ownership for each health care institution identified.

For Section A, Item 5, For new facilities or existing facilities without a current management agreement, attach a copy of a draft management agreement that at least includes the anticipated scope of management services to be provided, the anticipated term of the agreement, and the anticipated management fee payment methodology and schedule. For facilities with existing management agreements, attach a copy of the fully executed final contract.

Please describe the management entity's experience in providing management services for the type of the facility, which is the same or similar to the applicant facility. Please describe the ownership structure of the management entity.

For Section A, Item 6, For applicants or applicant's parent company/owner that currently own the building/land for the project location; attach a copy of the title/deed. For applicants or applicant's parent company/owner that currently lease the building/land for the project location, attach a copy of the fully executed lease agreement. For projects where the location of the project has not been secured, attach a fully executed document including Option to Purchase Agreement, Option to Lease Agreement, or other appropriate documentation. Option to Purchase Agreements must include anticipated purchase price. Lease/Option to Lease Agreements must include the actual/anticipated term of the agreement and actual/anticipated lease expense. The legal interests described herein must be valid on the date of the Agency's consideration of the certificate of need application.

| | | | | <u> </u> | |
|----|--|-------------------|---|-----------------------|----------|
| 1. | Name of Facility, Agency, or Institut | <u>tion</u> | | \$ 51 | |
| | Johnson City Medical Center | | | 10 | === |
| | Name | | | | |
| | 400 North State of Franklin Road Street or Route | | | Washington County | _ |
| | E.0000 | TNI | | 37604 | |
| | Johnson City City | TN State | | Zip Code | |
| | | | | p | |
| 2. | Contact Person Available for Respo | onses to Question | <u>ns</u> | | |
| | Allison Rogers | | V | P, Strategic Planning | _ |
| | Name | | | Title | |
| | Mountain States Health Alliance | | | sAM@msha.com | |
| | Company Name | | Em | ail address | |
| | 303 Med Tech Parkway, Suite #330 | Johnson City | TN | 37604 | |
| | Street or Route | City | State | Zip Code | 12 |
| | Employee | 423,302,3 | 378 | 423.302.3448 | |
| | Association with Owner | Phone Nu | mber | Fax Number | |
| | | | | | |
| 3. | Owner of the Facility, Agency or Ins | stitution | | | |
| | | | | | |
| | Mountain States Health Alliance | | | 423-431-6111 | |
| | Name | | | Phone Number | |
| | 303 Med Tech Parkway, Suite #330 | | | Washington | <u>.</u> |
| | Street or Route | | | County | |
| | Johnson City City | TN State | | 37604 Zip Code | 4 |
| | City | State | | Zip Code | |
| | | | | | |
| 4. | Type of Ownership of Control (Chec | ck One) | | | |
| | A. Sole Proprietorship B. Partnership C. Limited Partnership D. Corporation (For Profit) E. Corporation (Not-for-Profit) | G. Poli | vernment (S itical Subdiv nt Venture ited Liability er (Specify | Company — | |

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

| | N/A | A | | | | |
|----|----------------------------------|--|-----------|--|---|-----|
| | Nam | | | | | |
| | Stre | et or Route | | | County | _ |
| | City | | | Sta | ate Zip Code | _ |
| | | ALL ATTACHMENTS AT THE ERENCE THE APPLICABLE ITE | | | THE APPLICATION IN ORDER ON ALL ATTACHMENTS. | ANI |
| 6. | Leg | al Interest in the Site of the Inst | itution (| Chec | k One) | |
| | A. B. C. | Ownership Option to Purchase Lease ofYears | X | | Option to Lease Other (Specify) | |
| | REF | FERENCE THE APPLICABLE ITE | EM NUM | BER | | ANI |
| 7. | <u>Typ</u> | e of Institution (Check as appro | opriate | | | |
| | А. В. | Hospital (Specify) Ambulatory Surgical Treatment | | I. J. | _ | X |
| | | Allibulatory Surgical Freatment | | | Outpatient Diagnostic Center | |
| | ٥. | | | | | |
| | С. | Center (ASTC), Multi-Specialty ASTC, Single Specialty | | | Recuperation Center Rehabilitation Facility | |
| | C. D. | Center (ASTC), Multi-Specialty ASTC, Single Specialty Home Health Agency | | K. L. M. | Recuperation Center Rehabilitation Facility Residential Hospice | |
| | C. D. E. | Center (ASTC), Multi-Specialty ASTC, Single Specialty Home Health Agency Hospice | | K. L. | Recuperation Center Rehabilitation Facility Residential Hospice Non-Residential Methadone | |
| | C. D. E. F. | Center (ASTC), Multi-Specialty ASTC, Single Specialty Home Health Agency Hospice Mental Health Hospital | | K. L. M. N. | Recuperation Center Rehabilitation Facility Residential Hospice Non-Residential Methadone Facility | |
| | C. D. E. | Center (ASTC), Multi-Specialty ASTC, Single Specialty Home Health Agency Hospice Mental Health Hospital Mental Health Residential | | K. L. M. N. | Recuperation Center Rehabilitation Facility Residential Hospice Non-Residential Methadone Facility Birthing Center | |
| | C. D. E. F. G. | Center (ASTC), Multi-Specialty ASTC, Single Specialty Home Health Agency Hospice Mental Health Hospital | | K. L. M. N. | Recuperation Center Rehabilitation Facility Residential Hospice Non-Residential Methadone Facility Birthing Center Other Outpatient Facility | |
| | C. D. E. F. | Center (ASTC), Multi-Specialty ASTC, Single Specialty Home Health Agency Hospice Mental Health Hospital Mental Health Residential Treatment Facility | | K. L. M. N. | Recuperation Center Rehabilitation Facility Residential Hospice Non-Residential Methadone Facility Birthing Center Other Outpatient Facility (Specify) | |
| 8. | C. D. E. F. G. | Center (ASTC), Multi-Specialty ASTC, Single Specialty Home Health Agency Hospice Mental Health Hospital Mental Health Residential Treatment Facility Mental Retardation Institutional Habilitation Facility (ICF/MR) | | K. L. M. N. O. P. | Recuperation Center Rehabilitation Facility Residential Hospice Non-Residential Methadone Facility Birthing Center Other Outpatient Facility (Specify) | |
| 8. | C. D. E. F. G. | Center (ASTC), Multi-Specialty ASTC, Single Specialty Home Health Agency Hospice Mental Health Hospital Mental Health Residential Treatment Facility Mental Retardation Institutional Habilitation Facility (ICF/MR) | | K. L. M. N. O. P. | Recuperation Center Rehabilitation Facility Residential Hospice Non-Residential Methadone Facility Birthing Center Other Outpatient Facility (Specify) Other (Specify) | |
| 8. | C. D. E. F. G. H. | Center (ASTC), Multi-Specialty ASTC, Single Specialty Home Health Agency Hospice Mental Health Hospital Mental Health Residential Treatment Facility Mental Retardation Institutional Habilitation Facility (ICF/MR) pose of Review (Check) as apple New Institution Replacement/Existing Facility | | K. L. M. N. O. P. | Recuperation Center Rehabilitation Facility Residential Hospice Non-Residential Methadone Facility Birthing Center Other Outpatient Facility (Specify) Other (Specify) e than one response may apply) Change in Bed Complement [Please note the type of change | |
| 8. | C. D. E. F. G. H. A. B. C. | Center (ASTC), Multi-Specialty ASTC, Single Specialty Home Health Agency Hospice Mental Health Hospital Mental Health Residential Treatment Facility Mental Retardation Institutional Habilitation Facility (ICF/MR) pose of Review (Check) as apple New Institution Replacement/Existing Facility Modification/Existing Facility | | K. L. M. N. O. P. | Recuperation Center Rehabilitation Facility Residential Hospice Non-Residential Methadone Facility Birthing Center Other Outpatient Facility (Specify) Other (Specify) Change in Bed Complement [Please note the type of change by underlining the appropriate | |
| 8. | C. D. E. F. G. H. | Center (ASTC), Multi-Specialty ASTC, Single Specialty Home Health Agency Hospice Mental Health Hospital Mental Health Residential Treatment Facility Mental Retardation Institutional Habilitation Facility (ICF/MR) pose of Review (Check) as apple New Institution Replacement/Existing Facility Modification/Existing Facility Initiation of Health Care | | K. L. M. N. O. P. | Recuperation Center Rehabilitation Facility Residential Hospice Non-Residential Methadone Facility Birthing Center Other Outpatient Facility (Specify) Other (Specify) e than one response may apply) Change in Bed Complement [Please note the type of change by underlining the appropriate response: Increase, Decrease, | |
| 8. | C. D. E. F. G. H. A. B. C. | Center (ASTC), Multi-Specialty ASTC, Single Specialty Home Health Agency Hospice Mental Health Hospital Mental Health Residential Treatment Facility Mental Retardation Institutional Habilitation Facility (ICF/MR) pose of Review (Check) as apple New Institution Replacement/Existing Facility Modification/Existing Facility Initiation of Health Care Service as defined in TCA § | | K. L. M. N. O. P. | Recuperation Center Rehabilitation Facility Residential Hospice Non-Residential Methadone Facility Birthing Center Other Outpatient Facility (Specify) Other (Specify) e than one response may apply) Change in Bed Complement [Please note the type of change by underlining the appropriate response: Increase, Decrease, Designation, Distribution, | |
| 8. | C. D. E. F. G. H. A. B. C. | Center (ASTC), Multi-Specialty ASTC, Single Specialty Home Health Agency Hospice Mental Health Hospital Mental Health Residential Treatment Facility Mental Retardation Institutional Habilitation Facility (ICF/MR) pose of Review (Check) as apple New Institution Replacement/Existing Facility Modification/Existing Facility Initiation of Health Care Service as defined in TCA § 68-11-1607(4) | | K. L. M. N. O. P. Q. G. | Recuperation Center Rehabilitation Facility Residential Hospice Non-Residential Methadone Facility Birthing Center Other Outpatient Facility (Specify) Other (Specify) Change in Bed Complement [Please note the type of change by underlining the appropriate response: Increase, Decrease, Designation, Distribution, Conversion, Relocation] | |
| 8. | C. D. E. F. G. H. A. B. C. | Center (ASTC), Multi-Specialty ASTC, Single Specialty Home Health Agency Hospice Mental Health Hospital Mental Health Residential Treatment Facility Mental Retardation Institutional Habilitation Facility (ICF/MR) pose of Review (Check) as apple New Institution Replacement/Existing Facility Modification/Existing Facility Initiation of Health Care Service as defined in TCA § | | K. L. M. N. O. P. | Recuperation Center Rehabilitation Facility Residential Hospice Non-Residential Methadone Facility Birthing Center Other Outpatient Facility (Specify) Other (Specify) e than one response may apply) Change in Bed Complement [Please note the type of change by underlining the appropriate response: Increase, Decrease, Designation, Distribution, | X |

9. Bed Complement Data – Please indicate current and proposed distribution and certification of facility beds¹.

Note: Licensure for Johnson City Medical Center (JCMC) includes Quillen Rehabilitation Hospital and Woodridge Psychiatric Hospital.

¹ Includes Franklin Transitional Care (13 SNF beds) and Princeton Transitional Care (34 SNF beds).

| bea | s). | | | | TOTAL |
|-----|--|---|------------------------|--|-----------------------|
| | | Current Beds Licensed *CON | Staffed <u>Beds</u> | Beds <u>Proposed</u> | Beds at Completion |
| A. | Medical | <u>361</u> | <u>346</u> | | <u>361</u> |
| В. | Surgical (included above in medical) | | | : | |
| C. | Long-Term Care Hospital | | · | : | |
| D. | Obstetrical | 21 | 21 | | 21 |
| E. | ICU/CCU | 60 | <u>60</u> | | 60 |
| F. | Neonatal | <u>39</u> | <u>39</u> | | 39 |
| G. | Pediatric | 20 | 20 | | 20 |
| Н. | Adult Psychiatric (Woodridge Psychiatric Hospital) | 84 | 84 | · | 84 |
| ١. | Geriatric Psychiatric (included above in WPH) | | | | |
| J. | Child/Adolescent Psychiatric (included above) | | | | |
| K. | Rehabilitation (Quillen Rehabilitation Hospital) | 26 | 26 | | <u>26</u> |
| L. | Nursing Facility (non-Medicaid Certified) | 2 | | | - |
| M. | Nursing Facility Level 1 (Medicaid only) | | | (| |
| N. | Nursing Facility Level 2 (Medicare only) | | | | |
| Ο. | Nursing Facility Level 2 | | | | |
| | (dually certified Medicaid/Medicare) 1 | 47 | 34 | | <u>47</u> |
| Ρ. | ICF/MR | | | | |
| Q. | Adult Chemical Dependency | | | () | |
| R. | Child and Adolescent Chemical | | | | |
| | Dependency | () ==================================== | | | |
| S. | Swing Beds | · · · · · · · · · · · · · · · · · · · | | , j, | ***** |
| T. | Mental Health Residential Treatment | 7 | | V ==================================== | . |
| U. | Residential Hospice | A | | · | |
| | TOTAL | | _630_ | - | <u>658</u> |
| | | | | | |

| 10. | Medicare Provider Number | 44-5356 | |
|-----|--------------------------|--------------------------|--|
| 10. | Certification Type | Skilled Nursing Facility | |
| 44 | Medicaid Provider Number | 04-45356 | |
| 11. | Certification Type | Skilled Nursing Facility | |

12. If this is a new facility, will certification be sought for Medicare and/or Medicaid? N/A

13. Identify all TennCare Managed Care Organizations/Behavioral Health Organizations (MCOs/BHOs) operating in the proposed service area. Will this project involve the treatment of TennCare participants? Yes If the response to this item is yes, please identify all MCOs/BHOs with which the applicant has contracted or plans to contract. Discuss any out-of-network relationships in place with MCOs/BHOs in the area.

RESPONSE (QUESTION 13):

This project will continue to involve the treatment of TennCare participants. Princeton Transitional Care is a participant in the following MCOs:

Americhoice (United Healthcare) BlueCare (BlueCross)

In addition to the aforementioned MCOs, Johnson City Medical Center is also a participant in the following BHOs:

UBH ValueOptions

NOTE:

Section B is intended to give the applicant an opportunity to describe the project and to discuss the need that the applicant sees for the project. **Section C** addresses how the project relates to the Certificate of Need criteria of Need, Economic Feasibility, and the Contribution to the Orderly Development of Health Care. **Discussions on how the application relates to the criteria should not take place in this section unless otherwise specified.**

SECTION B: PROJECT DESCRIPTION

Please answer all questions on 8 1/2" x 11" white paper, clearly typed and spaced, identified correctly and in the correct sequence. In answering, please type the question and the response. All exhibits and tables must be attached to the end of the application in correct sequence identifying the questions(s) to which they refer. If a particular question does not apply to your project, indicate "Not Applicable (NA)" after that question.

I. Provide a brief executive summary of the project not to exceed two pages. Topics to be included in the executive summary are a brief description of proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility and staffing.

RESPONSE:

This application is for approval by the Health Services and Development Agency to relocate existing skilled nursing beds within Washington County, TN. Princeton Transitional Care (PTC) is a 34-bed skilled nursing unit currently located at James H. and Cecile C. Quillen Rehabilitation Hospital (2511 Wesley Street, Johnson City, TN, referred to as "Quillen"). Quillen is currently a satellite of facility of Johnson City Medical Center. The proposed project seeks approval to relocate the 34-bed SNF unit to Johnson City Medical Center (400 N. State of Franklin Road, Johnson City, TN). These 34 skilled nursing beds will occupy 14,334 square feet of existing space at JCMC. The estimated project cost is \$21,000. Funding for this project will be through the use of existing cash reserves of Mountain States Health Alliance (MSHA).

The project stems from the opportunity to expand the post-acute care continuum available in the Washington County market. MSHA has identified two partners who will bring significant resources and expertise to the provision of post-acute care services in the community and elevate the quality and continuity of care provided locally. First, MSHA will be partnering with HealthSouth Corporation to enhance the provision of inpatient rehabilitation services. Currently James H. and Cecile C. Quillen Rehabilitation Hospital is a 60-bed facility licensed under Johnson City Medical Center (JCMC), and houses 26 licensed inpatient rehabilitation beds as well as the 34 licensed skilled nursing beds of PTC. The long-term intention of the MSHA/HealthSouth joint venture is to expand the availability of inpatient rehabilitation beds at QRH. Improvements and expansion of QRH that require a certificate of need will be addressed in an application filed at a later date after plans have been finalized. In the meantime HealthSouth will be expanding clinical programs and converting many of the semi-private rooms currently in place to private rooms. Given the lack of unused space within the building, this necessitates the request to relocate PTC from QRH to JCMC.

Second, MSHA will be partnering with Signature HealthCARE to enhance the provision of skilled nursing facility care within Washington County. Currently MSHA has two licensed skilled nursing facilities within Washington County: Princeton Transitional Care (34 beds) and Franklin Transitional Care (13 beds). MSHA has struggled over the years to maximize the effectiveness of these two units, and as such, decided to seek an external partner with

expertise in this area. The long-term intention of this partnership is to develop an elder care campus which will provide a continuum of care for the older population – including skilled nursing care, assisted living, and retirement living options. This will be constructed on the old North Side Hospital campus (which MSHA also owns) located at 401 Princeton Road, Johnson City, TN. Both entities recognize a separate Certificate of Need will be needed to relocate the two SNF units and an application will be filed at a later date. In the meantime, Signature HealthCARE will manage the PTC unit at its proposed location within JCMC. A letter from Signature regarding the management agreement is provided in Attachment B.I. This will ensure that MSHA can continue to provide this vital service to the community as these partnerships put their plans into action which will lead to an overall enhancement of post- acute care services in Washington County.

Because HealthSouth will be making some capital improvements to QRH to expand clinical programming space and convert many of the semi-private rooms to private, they will need to utilize some of the space that PTC is currently occupying. So this request is to relocate PTC to JCMC temporarily where it will be managed by Signature as the elder care campus is being constructed. Once the campus is complete, Signature will seek to relocate both PTC (34 SNF beds) and FTC (13 SNF beds) to that site which will also house assisted living and retirement community services.

Johnson City Medical Center is the regional, tertiary hospital for Mountain States Health Alliance, a large, integrated, not-for-profit health care system. Founded in 1998, MSHA has historical community roots in the Johnson City Medical Center (JCMC) (1980-Present), Memorial Hospital (1951-1980), and Appalachian Hospital (1911-1951). The hospital system includes fourteen hospitals providing a core of acute care, hospital-based services, and an array of supporting services. In addition, MSHA operates urgent care centers, outpatient facilities, laboratory and radiology services, physician practices, long-term care and rehabilitation facilities, and community-based prevention and educational activities to a population of over 1.1 million residents of southern and central Appalachia. The twenty-nine (29) county service area consists of counties from Tennessee, Virginia, Kentucky and North Carolina.

The proposed project will not add any additional acute care, rehabilitation or skilled nursing beds to the service area. This proposal will allow MSHA to maximize its existing complement of licensed beds in Washington County to appropriately align full complement of services needed to meet the changing needs of the service area population across the continuum of care.

- II. Provide a detailed narrative of the project by addressing the following items as they relate to the proposal.
 - A. Describe the construction, modification and/or renovation of the facility (exclusive of major medical equipment covered by T.C.A. § 68-11-1601 et seq.) including square footage, major operational areas, room configuration, etc. Applicants with hospital projects (construction cost in excess of \$5 million) and other facility projects (construction cost in excess of \$2 million) should complete the Square Footage and Cost per Square Footage Chart. Utilizing the attached Chart, applicants with hospital projects should complete Parts A.-E. by identifying as applicable nursing units, ancillary areas, and support areas affected by this project. Provide the location of the unit/service within the existing facility along with current square footage, where, if any, the unit/service will relocate temporarily during construction and renovation, and then the location of the unit/service with proposed

square footage. The total cost per square foot should provide a breakout between new construction and renovation cost per square foot. Other facility projects need only complete Parts B.-E. Please also discuss and justify the cost per square foot for this project.

If the project involves none of the above, describe the development of the proposal.

The proposed project involves the relocation of a 34-bed skilled nursing unit, Princeton Transitional Care, from James H. and Cecile C. Quillen Rehabilitation Hospital to Johnson City Medical Center. The proposed location is on the third floor of JCMC. There are currently two nursing units, 3200 and 3300, which would be designated skilled nursing facility space. This area previously housed skilled nursing beds (Franklin Transitional Care) so the area already contains a distinguishable barrier between the skilled nursing unit and rest of the acute care hospital. This project only involves minor refurbishments (patching and painting) and minor renovations to the day room to ensure compliance with current regulatory statutes.

The minor refurbishments to the facility would not require temporary relocation for any patients due to the currently lower census of Johnson City Medical Center.

The proposed project will not initiate any new services or addition of major medical equipment (as defined by T.C.A. § 68-11-1601 et seq.) and will cost \$21,000. The total construction cost will be minimal at \$18,000 or \$1.26 a square foot.

B. Identify the number and type of beds increased, decreased, converted, relocated, designated, and/or redistributed by this application. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the existing services.

There will be no change in the total number of beds within Washington County. This request is to relocate 34 SNF beds from their current location within QRH to JCMC.

| | Current Bed Complement | Proposed Bed Complement |
|---------------------------|------------------------|---------------------------|
| Johnson City Medic | al Center | |
| Main Campus | 501 Acute Care Beds | 501 Acute Care Beds |
| | 13 FTC SNF Beds* | 13 FTC SNF Beds** |
| | | RELOCATE: 34 PTC SNF Beds |
| Woodridge Campus | 84 Psychiatric Beds | 84 Psychiatric Beds |
| Quillen Campus | 26 Rehabilitation Beds | 26 Rehabilitation Beds |
| • | 34 PTC SNF Beds | |
| Total JCMC | 658 Beds | 658 Beds |
| Franklin Woods Con | nmunity Hospital | |
| | 80 Acute Care Beds | 80 Acute Care Beds |
| Total Washington C | ounty Beds | |
| | 738 Beds | 738 Beds |
| | | |

^{*}currently suspended

^{**}continue to suspend

SQUARE FOOTAGE AND COST PER SQUARE FOOTAGE CHART

| A. Unit / Department | Existing | Existing | Temporary | Proposed Final | Prop Squa | Proposed Final Square Footage | = 0 | | Proposed Final Cost/ SF | al |
|----------------------------------|----------|----------|-----------|-------------------|--------------|----------------------------------|--------|-----------|----------------------------|--------|
| | Location | SF | | Location | Renovated | New | Total | Renovated | New | Total |
| 3200 and 3300 SNF | QRH | 13,100 | N/A | JCMC | 14,334 | 0 | 14,334 | \$1.26 | \$0 | \$1.26 |
| | | | | | | - | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| B. Unit/Depart. GSF Sub-Total | | | | | | | | | | |
| | | | | | | | | | | |
| C. Mechanical/ Electrical GSF | | | | | | | | | | |
| D. Circulation /Structure GSF | | | | | | | | | | |
| E. Total GSF | QRH | 13,100 | N/A | JCMC | 14,334 | 0 | 14,334 | \$1.26 | \$0 | \$1.26 |

C. As the applicant, describe your need to provide the following health care services (if applicable to this application):

- 1. Adult Psychiatric Services
- 2. Alcohol and Drug Treatment for Adolescents (exceeding 28 days)
- 3. Birthing Center
- 4. Burn Units
- 5. Cardiac Catheterization Services
- 6. Child and Adolescent Psychiatric Services
- 7. Extracorporeal Lithotripsy
- 8. Home Health Services
- 9. Hospice Services
- 10. Residential Hospice
- 11. ICF/MR Services
- 12. Long-term Care Services
- 13. Magnetic Resonance Imaging (MRI)
- 14. Mental Health Residential Treatment
- 15. Neonatal Intensive Care Unit
- 16. Non-Residential Methadone Treatment Centers
- 17. Open Heart Surgery
- 18. Positron Emission Tomography
- 19. Radiation Therapy/Linear Accelerator
- 20. Rehabilitation Services
- 21. Swing Beds

Not applicable

D. Describe the need to change location or replace an existing facility.

The proposed project addresses a major concern for Mountain States Health Alliance which has been the effectiveness of post-acute care resources in Washington County. Given the changing healthcare landscape and the vital role that post-acute care has in effective population health management, it was critical for MSHA to reorganize this service offering. MSHA seeks to enhance continuity of care and improve operational efficiency for both skilled nursing care and inpatient rehabilitation in Washington County through select partnerships with HealthSouth Corporation and Signature HealthCARE. Both organizations have significant resources and expertise within their respective areas of focus and MSHA has developed partnerships with both entities to leverage their capabilities to improve the post-acute arena within Washington County.

Mountain States has entered into a definitive agreement with HealthSouth Corporation to create a joint venture partnership that will expand service offerings at Quillen Rehabilitation Hospital. This will require renovation and expansion of clinical programming space at QRH; however, the existing space is maximized with the presence of Princeton Transitional Care's 34 beds. This necessitates a need to reconsider the location of the 34 SNF beds. At the same time, MSHA has separately signed a letter of intent with Signature HealthCARE to develop a new patient- and family-friendly elder care community that will include skilled nursing care services among others (retirement living and assisted living). This will involve the ultimate relocation of MSHA's 47 skilled nursing care beds (34 at PTC and 13 at FTC) to this new community campus; however, this will require 18 to 24 months

of construction (and an additional CON which will be filed at a later date). In the meantime, both Signature HealthCARE and MSHA feel it is essential for the community to have continued access to these existing SNF services. As such, JCMC has agreed to give up space within its facility to temporarily house PTC's 34 skilled nursing care beds as this new campus is being constructed.

As a result of these partnerships, it is necessary to develop an interim plan to temporarily relocate the existing and operational 34-bed skilled nursing unit, Princeton Transitional Care. The project application requests the relocation of the 34-bed skilled nursing unit (PTC), from the campus of Quillen Rehabilitation Hospital to Johnson City Medical Center. This will free up space for HealthSouth to make the necessary upgrades and adjustments to the physical space within QRH needed to elevate and modernize the inpatient rehabilitation patient experience. Additionally Signature HealthCARE will manage the unit within JCMC as the elder care campus is constructed at the old North Side Hospital location (401 Princeton Road, Johnson City). The intent is to demolish that building and construct a complete elder care campus with offerings including retirement community living, assisted living facility, and skilled nursing care.

- E. Describe the acquisition of any item of major medical equipment (as defined by the Agency Rules and the Statute) which exceeds a cost of \$1.5 million; and/or is a magnetic resonance imaging (MRI) scanner, positron emission tomography (PET) scanner, extracorporeal lithotripter and/or linear accelerator by responding to the following:
 - 1. For fixed-site major medical equipment (not replacing existing equipment):
 - a. Describe the new equipment, including:
 - 1. Total cost; (As defined by Agency Rule).
 - 2. Expected useful life;
 - 3. List of clinical applications to be provided; and
 - 4. Documentation of FDA approval.
 - b. Provide current and proposed schedules of operations.

Not applicable

- 2. For major mobile medical equipment:
 - a. List all sites that will be served;
 - b. Provide current and/or proposed schedule of operations;
 - c. Provide the lease or contract cost;
 - d. Provide the fair market value of the equipment; and
 - e. List the owner for the equipment.

Not applicable

3. Indicate applicant's legal interest in equipment (i.e., purchase, lease, etc.) In the case of equipment purchase include a quote and/or proposal from an equipment vendor, or in the case of an equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments.

Not applicable

- III. (A) Attach a copy of the plot plan of the site on an 8 1/2" x 11" sheet of white paper which must include:
 - 1. Size of site (in acres);
 - 2. Location of structure on the site; and
 - 3. Location of the proposed construction.
 - 4. Names of streets, roads or highway that cross or border the site.

Please note that all drawings do not need to be drawn to scale. Plot plans are required for <u>all</u> projects.

Princeton Transitional Care, a 34-bed skilled nursing facility, will be relocated to Johnson City Medical Center, 400 North State of Franklin Road, Johnson City, Tennessee. Included in Attachment B.III.(A) is the plot plan for Johnson City Medical Center. The 34 skilled nursing beds will be relocated to a 14,334 square foot unit located within Johnson City Medical Center. The size of the JCMC campus is 54.167 acres.

(B) 1. Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

Johnson City Medical Center is located at 400 N. State of Franklin Road (State 321) on the corner of Highway 11E in Johnson City, Tennessee and is accessible from Interstate 26. Johnson City Medical Center is a stop on the Johnson City Transit Public Transportation service. The proposed site is accessible through multiple access points for ambulatory patients, patients transferred into the facility and for emergent patients. JCMC has a helicopter service available for emergent and inter-facility transfers.

IV. Attach a floor plan drawing for the facility, which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. on an $8 \frac{1}{2}$ " x 11" sheet of white paper.

NOTE: <u>DO NOT SUBMIT BLUEPRINTS</u>. Simple line drawings should be submitted and need not be drawn to scale.

Floor plans for the project are provided in Attachment B.IV.

- V. For a Home Health Agency or Hospice, identify:
 - Existing service area by County;
 Proposed service area by County;
 - 3. A parent or primary service provider;
 - 4. Existing branches; and
 - 5. Proposed branches.

Not Applicable

SECTION C: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with Tennessee Code Annotated § 68-11-1609(b), "no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, and will contribute to the orderly development of health care." The three (3) criteria are further defined in Agency Rule 0720-4-.01. Further standards for guidance are provided in the state health plan (Guidelines for Growth), developed pursuant to Tennessee Code Annotated §68-11-1625.

The following questions are listed according to the three (3) criteria: (I) Need, (II) Economic Feasibility, and (III) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. Please type each question and its response on an 8 1/2" x 11" white paper. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a question does not apply to your project, indicate "Not Applicable (NA)."

QUESTIONS

NEED

- 1. Describe the relationship of this proposal toward the implementation of the State Health Plan and Tennessee's Health: Guidelines for Growth.
 - a. Please provide a response to each criterion and standard in Certificate of Need Categories that are applicable to the proposed project. Do not provide responses to General Criteria and Standards (pages 6-9) here.

Special Criteria for Construction, Renovation, Expansion, and Replacement of Health Care Institutions

1. Any project that includes the addition of beds, services, or medical equipment will be reviewed under the standards for those specific activities.

This project does not involve the addition of beds, services or major medical equipment, but better fits the description for the relocation and renovation of an existing health care institution and is addressed in the following sections for 2 (a), 2 (b), 3 (a) and 3 (b).

- 2. For relocation or replacement of an existing licensed health care institution:
 - a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.

This project involves the relocation of the existing 34 skilled nursing beds from their current location at Quillen Rehabilitation Hospital into renovated space within Johnson City Medical Center. By relocating these beds, HealthSouth can proceed with plans to improve the facility infrastructure at QRH and expand the clinical space programming to enhance care for the inpatient rehabilitation population. Also, the temporary relocation of PTC to JCMC will ensure the continued provision of this much needed service while MSHA and Signature HealthCare complete plans to construct a comprehensive eldercare campus in Johnson City. The strength of this project is that it will enhance the

overall provision of post-acute care services in Washington County at a minimal project cost of \$21,000.

One disadvantage with this approach will be the impact to JCMC's existing bed capacity. While this may prove challenging during peak census, JCMC is confident with existing resources at Franklin Woods Community Hospital (80 beds, also in Washington County), this challenge can be proactively managed. In fact, immediate access to the 34-SNF beds within JCMC will provide an opportunity to lower the length of stay on the acute care side as well thus improving JCMC's ability to manage any potential temporary capacity issues.

Capacity Trends in Washington County

| | FY2012 | FY2013 | FY2014 |
|-------------------------|----------------|---------|---------|
| Franklin Woods Commu | ınity Hospital | | |
| Licensed Beds | 80 | 80 | 80 |
| Patient Days | 14,233 | 15,199 | 15,182 |
| Occupancy | 49% | 52% | 52% |
| Johnson City Medical Co | enter | | |
| Licensed Beds | 501 | 501 | 501 |
| Patient Days | 132,677 | 125,692 | 119,570 |
| Occupancy | 73% | 69% | 65% |

Sources: Joint Annual Report; Internal Data

Given there is capacity at FWCH, JCMC will coordinate during peak census to ensure that the temporary removal of access to 34 of JCMC's licensed beds does not impact MSHA's overall ability to provide acute care services to the community. This challenge is only temporary as the ultimate goal is to relocate all 47 SNF beds (PTC's 34 beds and FTC's 13 beds) to the new eldercare campus that MSHA and Signature HealthCARE will be constructing on the old North Side Hospital campus. This disadvantage is offset by the fact JCMC will manage this challenge with other existing MSHA resources in Washington County and the only other viable alternatives are to hold on the improvements to QRH or to suspend PTC beds during the next 18 to 24 months as the new eldercare campus is constructed. MSHA believes these alternatives are not viable given the impact they would have on the entire delivery system and therefore seeks approval to temporarily relocate PTC to refurbished space within JCMC.

b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

The aging baby boomer population is requiring an ever increasing demand for post-acute care. The increasing demand is the result of patients leaving a hospital setting and requiring skilled nursing assistance in hopes of reacclimating to the lifestyle accustomed prior to the acute care setting. In February 2009, there was a report published that was prepared for the Assistant Secretary for Planning and Evaluation (ASPE) of the U.S. Department of Health and Human Services. This report, entitled "Examining Post-Acute Care Relationship in an Integrated Hospital System," identified

skilled nursing facilities as the most frequently used setting for Medicare patients seeking post-acute care, accounting for 41 percent of this population.

There has been renewed focus in the opportunity to better maximize skilled nursing facility and other post-acute care resources as bundled payments, ACOs, and other payment reform mechanisms continue to be implemented across the country. It is essential that patients receive the most appropriate care in the lowest cost setting and post-acute care is considered a significant opportunity to lower costs, improve quality through enhanced coordination of care, reduce hospital readmissions, and so forth. It was for these very reasons that MSHA begin to seek expertise in this area in the form of partnerships with HealthSouth and Signature HealthCARE.

Outlined below are the historical trends for SNF volumes at Princeton Transitional Care.

Princeton Transitional Care Volumes FY2010 – FY2014

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 |
|---------------|--------|--------|--------|--------|--------|
| Admissions | 889 | 705 | 692 | 706 | 813 |
| Patient Days | 11,131 | 10,173 | 8,622 | 8,950 | 8,839 |
| ALOS | 12.5 | 14.4 | 12.5 | 12.7 | 10.9 |
| Licensed Beds | 34 | 34 | 34 | 34 | 34 |
| Occupancy | 89.7% | 81.9% | 69.5% | 72.1% | 71.2% |

Sources: Joint Annual Reports; Internal Data

Sg2 is an international firm based out of Chicago, which provides analytic-based health care expertise to help hospitals and health systems integrate, prioritize and drive growth and performance across the continuum of care. Over 1,200 organizations around the world utilize their analytic, intelligence, consulting, and educational services. MSHA is a client and uses their analytic tools to project demand across the various setting within healthcare. Nationally Sg2 projects skilled nursing facility demand will grow over 10% over the next 10 years. The need for skilled nursing facility services will continue in PTC's local service area, especially given the higher than national rates of elderly. The ultimate goal of partnering with Signature HealthCARE to develop an eldercare campus that will provide coordinated care options for those requiring skilled care, assisted living or even just retirement living options will help meet this increasing need.

3. For renovation or expansions of an existing licensed health care institution:

a. The applicant should demonstrate that there is an acceptable existing demand for the proposed project.

Question 3(a) is addressed in the question above [Question 2(b)].

b. The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.

This is not applicable as this project involves only refurbishments and very minor renovation at JCMC in order to accommodate the request to temporarily

relocate PTC. The unit at JCMC was previously designated as skilled nursing facility space and will require only minimal adjustments to meet the needs of PTC.

- b. Applications that include a Change of Site for a health care institution, provide a response to General Criterion and Standards (4)(a-c)
 - (4) Applications for Change of Site. When considering a certificate of need application which is limited to a request for a change of site for a proposed new health care institution, the Commission may consider, in addition to the foregoing factors, the following factors:
 - (a) Need. The applicant should show the proposed new site will serve the healthcare needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change the proposed new site.

The proposed relocation site for Princeton Transitional Care, currently located at Quillen Rehabilitation Hospital, is located approximately 4 miles away at Johnson City Medical Center. Because of the proximity of the two facilities, the skilled nursing care needs in the community will be just as well served as at the current site. This request is to temporarily relocate PTC to JCMC, which will enable HealthSouth to proceed with its plan to improve the QRH's facility infrastructure and expand clinic programmatic space to better meet the needs of the inpatient rehabilitation patient population. Additionally, the temporary relocation 4 miles away will ensure PTC continues to provide this vital service to the community while the intended permanent location is being built on the pending MSHA/Signature HealthCARE eldercare campus. This new eldercare campus will be on the old North Side Hospital property which is adjacent to the current campus of QRH. So while PTC will move 4 miles away temporarily, it will essentially end up back at nearly the same location, albeit in a modern, comprehensive campus designed to meet the needs of the elderly population through the provision of skilled care, assisted living services and retirement living options.

(b) Economic factors. The applicant should show that the proposed new site would be at least as economically beneficial to the population to be served as the original site.

Approval of this project will enable Mountain States Health Alliance to enhance the provision of post-acute care services within Washington County. The ultimate intent of constructing an eldercare campus that will contain access to skilled nursing care, assisted living and retirement living options will better meet the needs of community. Enhancement of valued post-acute care services will improve cost efficiencies for the overall healthcare delivery system as the cost of care for patients in an acute care setting is almost 40% to 60% more compared to the post-acute care settings (i.e., skilled nursing, rehabilitation, and so forth). So improving access to this vital services in an elderly friendly environment that leverages the expertise of national and multi-state organizations such as HealthSouth and Signature HealthCARE will be very beneficial to this patient population.

(c) Contribution to the orderly development of health care facilities and/or services. The applicant should address any potential delays that would be caused by the proposed change of site, and show that any such delays are

outweighed by the benefit that will be gained from the change of site by the population to be served.

The proposed change of site of PTC from QRH to JCMC will not create any potential delays. Johnson City Medical Center does not currently operate at maximum capacity so there will be no delay or interruption in current clinical services at JCMC as the minor refurbishments are completed to prepare the facility for the relocation of PTC. In the meantime, PTC will continue to operate within QRH and will not be impacted during this brief time of preparation. Once the refurbishments at Johnson City Medical Center are complete, existing patients from Princeton Transitional Care would be transferred as appropriate to the new space within JCMC. In fact, by moving PTC to JCMC now, HealthSouth will have more immediate access to additional space at QRH needed to expand the clinical services programming and modernize the facility infrastructure for their inpatient rehabilitation patient population.

2. Describe the relationship of this project to the applicant facility's long-range development plans, if any.

The proposed project is consistent with the long-range plans of Mountain States Health Alliance. As the healthcare delivery and reimbursement models have been changing in response to healthcare reform, there has been increased focus and attention given to post-acute care services. While MSHA has multiple resources in Washington County in this area (inpatient rehab, skilled nursing facilities), the system has not necessarily maximized the potential opportunities to completely leverage these resources. Recognizing that MSHA has limited expertise in these areas, the system intentionally sought out regional and national experts with whom MSHA could partner in these areas. Following a very thorough and methodical process, MSHA has decided to partner with HealthSouth for inpatient rehabilitation services (through a joint venture relationship with will involve QRH) as well as Signature HealthCARE for skilled nursing and other elder care services.

Both partners will bring a great deal of expertise and resources to the already existing services in place. HealthSouth is the nation's largest owner and operator of inpatient rehabilitation hospitals in terms of patients treated and discharged, revenues and number of hospitals. Operating in 28 states across the country and in Puerto Rico, HealthSouth serves patients through its network of inpatient rehabilitation hospitals, outpatient rehabilitation satellite clinics and home health agencies. HealthSouth's hospitals provide a higher level of rehabilitative care to patients who are recovering from conditions such as stroke and other neurological disorders, orthopedic, cardiac and pulmonary conditions, brain and spinal cord injuries, and amputations. MSHA intends to utilize this national partner to improve and expand the depth and breadth of inpatient rehabilitation services provided at QRH. In order to accomplish this, more space is needed within the building and therein lies part of the impetus of this project – to relocate PTC out of QRH, freeing up space for improvements to the inpatient rehabilitation services.

MSHA's second partner, Signature HealthCARE, is a growing long-term care, rehabilitation and health care provider with 123 locations in ten states and nearly 19,000 employees. Nearly half of Signature's facilities have 4-star or 5-star rating from the federal Centers for Medicare & Medicaid Services. In 2013, the company was named one of Modern Healthcare's "Best Places to Work" for the third time. Signature's culture was built on three organizational pillars: Learning, Spirituality and Intra-preneurship. This will be good fit with MSHA's culture and their regional expertise in skilled nursing care will be a tremendous value-add for the local community. MSHA intends to partner with Signature HealthCARE to construct a

comprehensive elder care campus, on the old North Side Hospital building site. This community and patient friendly campus will provide a range of elder care options, including skilled nursing care, assisted living and retirement living. This will greatly expand services for the elderly population within PTC's service area.

Both of these partnerships will enhance the quality of post-acute care services in the local community in a very coordinated fashion with the existing acute care resources. The eldercare campus that MSHA and Signature HealthCARE will develop is the intended ultimate home for PTC. However, given the multiple projects competing for the same space, MSHA has decided to temporarily relocate PTC to JCMC. This will ensure the community can still access this much needed service during this time of construction. Signature HealthCARE will be managing this unit at PTC so the partnership will have immediate benefit to the community as their expertise will be leveraged well prior to the construction of the eldercare campus.

3. Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map including the State of Tennessee clearly marked to reflect the service area. Please submit the map on 8 1/2" x 11" sheet of white paper marked only with ink detectable by a standard photocopier (i.e., no highlighters, pencils, etc.).

Princeton Transitional Care serves patients predominately from Northeast Tennessee. The primary service area (PSA) consists of three Tennessee counties: Carter, Sullivan, and Washington. In Fiscal Year 2014, the PSA accounted for 675 SNF admissions, or 83% of total admissions to Princeton Transitional Care.

The secondary service area (SSA) consists of three other Tennessee counties: Johnson, Greene, and Unicoi. In Fiscal Year 2014, the SSA accounted for 82 SNF admissions, or 10% of total admissions to Princeton Transitional Care.

The FY2014 volumes by service area are provided in the following table.

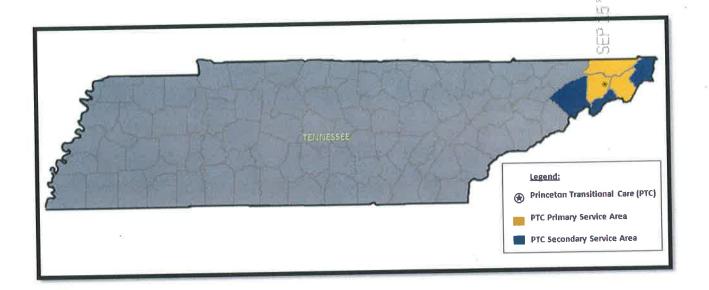
FY2014 Princeton Transitional Care SNF Patient Origin

| Service Area | County | FY14 Cases | % of Total | Cumulative Total |
|--------------------|----------------|------------|------------|------------------|
| Primary | Washington, TN | 519 | 64% | 64% |
| Primary | Carter, TN | 92 | 11% | 75% |
| Primary | Sullivan, TN | <u>64</u> | <u>8%</u> | <u>83%</u> |
| PSA Subtotal | | 675 | 83% | |
| Secondary | Unicoi, TN | 32 | 4% | 87% |
| Secondary | Greene, TN | 32 | 4% | 91% |
| Secondary | Johnson, TN | <u>18</u> | <u>2%</u> | 93% |
| SSA Subtotal | | 82 | 10% | |
| All | Other | 56 | 7% | 100% |
| Grand Total | | 813 | 100% | |

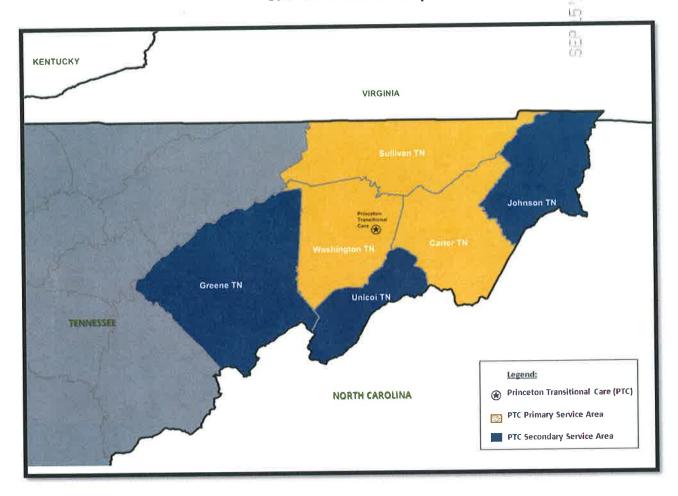
Source: Internal Data

Maps depicting the service area are provided on the following pages.

SNF Service Area Map



Princeton Transitional Care SNF Service Area Map



A. Describe the demographics of the population to be served by this proposal.

The following table shows the total population of each of the counties in the project's service area. Analysis of the data predicts a 3.0% growth in the combined primary and secondary service area of Princeton Transitional Care from 2015 to 2020. In addition, PTC is located in Washington County which expects a 6.7% growth over the next 5 years.

Service Area Population Projections

| | • | • | | 5-Year Growth | |
|--------------|----------------|----------------|---------|---------------|-----------|
| Service Area | County | 2015 | 2020 | Number | Percent |
| Primary | Washington, TN | 132,015 | 140,905 | 8,890 | 7% |
| Primary | Carter, TN | 58,052 | 58,375 | 323 | 1% |
| Primary | Sullivan, TN | <u>158,679</u> | 159,749 | <u>1,070</u> | <u>1%</u> |
| PSA Subtotal | | 348,746 | 359,029 | 10,283 | 3% |
| Secondary | Unicoi, TN | 18,760 | 19,150 | 390 | 2% |
| Secondary | Greene, TN | 71,945 | 74,656 | 2,711 | 4% |
| Secondary | Johnson, TN | 18,716 | 19,112 | <u>396</u> | <u>2%</u> |
| SSA | Subtotal | 109,421 | 112,918 | 3,497 | 3% |
| PSA and SSA | Combined | 458,167 | 471,947 | 13,780 | 3% |

Source: Tennessee Advisory Commission on Intergovernmental Relations; University of Tennessee Center for Business and Economic Research

The population in the project's primary service area (accounts for 83% of service volume discharges) has a higher concentration of older individuals than state and national trends. In 2015, 20% of the project's service area will be ages 65 and above, compared to 16% in Tennessee and 15% of the United States. Over the next five years, the elderly population within the primary service area is projected to increase 16%, far outweighing general population growth of 3 percent. This growth substantiates the continued demand for services highly utilized by the elderly, including skilled nursing care, assisted living, and retirement living. The table below details the service area's age distribution.

Primary Service Area Population Distribution by Age Group

| | Percent of Total | | | | |
|------------|------------------|---------|----------|------|------|
| Age Cohort | 2015 | 2020 | % Growth | 2015 | 2020 |
| 0 to 19 | 78,111 | 78,113 | 0% | 22% | 22% |
| 20 to 44 | 103,867 | 103,930 | 0% | 30% | 29% |
| 45 to 64 | 97,899 | 97,307 | -1% | 28% | 27% |
| 65+ | 68,869 | 79,679 | 16% | 20% | 22% |
| Total | 348,746 | 359,029 | 3% | 100% | 100% |

Source: Tennessee Advisory Commission on Intergovernmental Relations; University of Tennessee Center for Business and Economic Research

The demographics of Princeton Transitional Care's primary service area are similar to the United States in gender (51 percent female, 49 percent male). The primary service area counties have a much lower median household income compared to the national average (\$40,216 versus \$51,371). The racial mix in the primary service area is predominately Caucasian, as they account for more than 92% percent of the population.

B. Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

Princeton Transitional Care, as part of Mountain States Health Alliance, is committed to meeting the needs of the community and the region, as stated in its organizational mission, "to identify and respond to the health care needs of individuals and communities in our region and to assist them in attaining their highest possible level of health". Princeton Transitional Care participates in Medicare and TennCare programs. Mountain States Health Alliance provides services to more TennCare patients than any other provider in the region and is a leading provider of charity care. Medicare patients for FY2014 comprised 71% of Princeton Transitional Care's patient revenue, TennCare and Medicaid patients made up 7%, with another 12% combined from charity and self-pay.

5. Describe the existing or certified services, including approved but unimplemented CONs, of similar institutions in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. Be certain to list each institution and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: admissions or discharges, patient days, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc.

The proposed project is for the relocation of a 34-bed skilled nursing unit temporarily to Johnson City Medical Center while the elder care campus to be constructed by MSHA and Signature HealthCARE is being built. The trend in volumes is listed below for the hospitals in the service area providing skilled nursing services.

Legend for Utilization Table

| Facility | Facility Name | SNF Name | | |
|--|----------------------------|-----------------------------|--|--|
| IPMC | Indian Path Medical Center | IPMC Transitional Care | | |
| JCMC (a) Johnson City Medical Center | | Franklin Transitional Care | | |
| LMH (b) | Laughlin Memorial Hospital | Laughlin Healthcare Center | | |
| QRH James H. and Cecile C. Quillen Rehabilitation Hospital | | Princeton Transitional Care | | |
| UCMH (b) Unicoi County Memorial Hospital | | Unicoi County Nursing Home | | |

⁽a) Franklin Transitional Care – currently suspended (b) Provides Level I Intermediate Care services as well

Trend in Service Area Hospital-Based SNF Utilization

| | Trond in Control flow Hoop and Control Control | | | | | | | | | | | |
|----------|--|-----------|------|------------------|--------|---------------|------|------|---------------|-------|-------|-------|
| | Ac | lmissions | (c) | Patient Days (c) | | Licensed Beds | | | Occupancy (%) | | | |
| Facility | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 |
| IPMC | 678 | 663 | 656 | 6,231 | 5,917 | 5,919 | 22 | 22 | 22 | 77.6% | 73.7% | 73.7% |
| JCMC (a) | 10 | 291 | n/a | 84 | 3,571 | n/a | 13 | 13 | 13 | 1.8% | 75.2% | n/a |
| LMH(b) | 452 | 409 | n/a | 30,132 | 28,891 | n/a | 90 | 90 | 90 | 91.7% | 87.9% | n/a |
| QRH | 705 | 692 | 706 | 10,173 | 8,622 | 8,950 | 34 | 34 | 34 | 81.9% | 69.5% | 72.1% |
| UCMH (b) | 83 | 103 | 108 | 16,655 | 16,574 | 15,847 | 46 | 46 | 46 | 99.2% | 98.7% | 94.4% |

Sources: Tennessee Department of Health, Joint Annual Reports and Internal Data

Note: 2013 Joint Annual Reports not available for competitors

(a) Franklin Transitional Care was suspended between 2010 and 2011; it was then active in 2012 and re-suspended in 2013

(b) Provides Level I Intermediate Care services as well

- (c) Includes Level I Intermediate and Level II Skilled Nursing where applicable
- 6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three (3) years and the projected annual utilization for each of the two (2) years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology must include detailed calculations or documentation from referral sources, and identification of all assumptions.

Over the past five years, Princeton Transitional Care has operated at occupancy in excess of 70 percent. Mountain States Health Alliance anticipates a trend similar to the past with occupancy projections of 72% in the first full year and 77% in the second full year of operations. The projected data for the first full year of operations for Princeton Transitional Care at JCMC are 8,921 patient days and 805 admissions. The table below illustrates the historical and projected volumes for the 34-bed SNF unit.

Princeton Transitional Care SNF Volumes

FY2017 – Projected Year 2

| | FY2010 | FY2011 | FY2012 | FY2013 | FY2014 | FY2016 | FY2017 |
|---------------|--------|--------|--------|--------|--------|--------|--------|
| Admissions | 889 | 705 | 692 | 706 | 813 | 805 | 859 |
| Patient Days | 11,131 | 10,173 | 8,622 | 8,950 | 8,839 | 8,921 | 9,516 |
| ALOS | 12.5 | 14.4 | 12.5 | 12.7 | 10.9 | 11.1 | 11.1 |
| Licensed Beds | 34 | 34 | 34 | 34 | 34 | 34 | 34 |
| Occupancy | 89.7% | 81.9% | 69.5% | 72.1% | 71.2% | 71.9% | 76.7% |

Sources: Joint Annual Reports; Internal Data

The growth was calculated assuming Princeton Transitional Care would achieve an average daily census of 26. Assessing historical and market trends, senior leadership assumed a modest growth of 1% for the project year 1 increasing to 6% in year 2 of the proposed project. These are very consistent with previous years.

ECONOMIC FEASIBILITY

- 1. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.
 - All projects should have a project cost of at least \$3,000 on Line F. (Minimum CON Filing Fee). CON filing fee should be calculated from Line D. (See Application Instructions for Filing Fee)
 - The cost of any lease should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater.
 - The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.
 - For projects that include new construction, modification, and/or renovation; documentation must be provided from a contractor and/or architect that support the estimated construction costs.

The project costs associated with this proposal are identified in the Project Costs Chart below. Attachment C1 contains documentation support from an architect.

PROJECT COSTS CHART

| A. | Cons | struction and equipment acquired by purchase: | | |
|----|---------------|---|-------------|-----------|
| | 1. | Architectural and Engineering Fees | _ | \$0 |
| | 2. | Legal, Administrative (Excluding CON Filing Consultant Fees | Fee), | \$3,500 |
| | 3. | Acquisition of Site | | \$0 |
| | 4. | Preparation of Site | _ | \$0 |
| | 5. | Construction Costs | - | \$10,500 |
| | 6. | Contingency Fund | | \$4,000 |
| | 7. | Fixed Equipment (Not included in Construction Contraction | ct) | \$0 |
| | 8. | Moveable Equipment (List all equipment over \$50,000 | 0) _ | \$0 |
| | 9. | Other (Specify) | | \$0 |
| В. | Acqu | isition by gift, donation, or lease: | | |
| | 1. | Facility (inclusive of building and land) | | \$0 |
| | 2. | Building only | - | \$0 |
| | 3. | Land only | 2 | \$0 |
| | 4. | Equipment (Specify) | | \$0 |
| | 5. | Other (Specify) | | \$0 |
| C. | Finaı | ncing Costs and Fees: | | |
| | 1. | Interim Financing | | \$0 |
| | 2. | Underwriting Costs | | \$0 |
| | 3. | Reserve for One Year's Debt Service | | \$0 |
| | 4. | Other (Specify) | | \$0 |
| D, | Estin (A+B | nated Project Cost s+C) | | \$18,000 |
| E, | C | ON Filing Fee | _ | \$3,000 |
| F, | Тс | otal Estimated Project Cost | - | |
| | | ; +E) | | |
| | • | , | OTAL | \$ 21,000 |

2. Identify the funding sources for this project.

Please check the applicable item(s) below and briefly summarize how the project will be financed. (Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.)

- A. Commercial loan—Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;
- B. Tax-exempt bonds—Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;
- __ C. General obligation bonds—Copy of resolution from issuing authority or minutes from the appropriate meeting.
- __ D. Grants—Notification of intent form for grant application or notice of grant award; or
- X E. Cash Reserves—Appropriate documentation from Chief Financial Officer.
- F. Other—Identify and document funding from all other sources.

The project will be funded from existing cash reserves from operations at Mountain States Health Alliance. Documentation of the availability of funds to complete the project is provided in the attachments.

3. Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services and Development Agency.

The total cost of the proposed project is minimal at \$18,000 in refurbishment and minor renovation cost. The renovations will focus on expanding the day room space needed to meet the standards required for a 34-bed skilled nursing facility as this space previously housed a smaller skilled nursing unit. The project will impact 14,334 square feet at a minimal cost of \$1.26 per square foot.

4. Complete Historical and Projected Data Charts on the following two pages--Do not modify the Charts provided or submit Chart substitutions! Historical Data Chart represents revenue and expense information for the last three (3) years for which complete data is available for the institution. Projected Data Chart requests information for the two (2) years following the completion of this proposal. Projected Data Chart should reflect revenue and expense projections for the Proposal Only (i.e., if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility).

The following two pages contain the Historical Data Chart and the Projected Data Chart. The historical data chart profiles JCMC's performance between FY2012 and FY2014. The projected data chart profiles PTC's estimated performance for the first two complete fiscal years of operation (FY2016 and FY2017).

HISTORICAL DATA CHART (Chart B)

Give information for the last *three* (3) years for which complete data are available for the facility or agency. The fiscal year begins in July (Month).

Johnson City Medical Center:

| | | • | Year <u>FY2012</u> | Year FY 2013 | Year <u>FY 2014</u> |
|----|-------|--|---------------------------|----------------------|----------------------------|
| A. | Utili | zation Data (adjusted patient days) | 221,073 | 221,457 | 211,147 |
| B. | Rev | venue from Services to Patients | | | |
| | 1. | Inpatient Services | | | |
| | _ | 0.1.11.10 | 1,229,828,177 | 1,225,715,583 | 1,238,569,182 |
| | 2. | Outpatient Services | 634,541,928 | 650,543,168 | 728,794,601 |
| | 3. | Emergency Services | 63,778,997 | 70,645,530 | <u>75,596,172</u> |
| | 4. | Other Operating Revenue (Specify) | 7,159,508 | 12,167,594 | 10,581,953 |
| | | Gross Operating Revenue | 1,935,308,611 | 1,959,071,875 | 2,053,541,908 |
| C. | Dec | ductions for Operating Revenue | | | |
| | 1. | Contractual Adjustments | 1,387,754,477 | <u>1,445,591,862</u> | 1,551,293,701 |
| | 2. | Provision for Charity Care | 102,833,165 | 92,919,891 | 90,618,603 |
| | 3. | Provisions for Bad Debt | 2,231,217 | 2,459,181 | 5,863,379 |
| | | Total Deductions | <u>1,492,818,859</u> | 1,540,970,934 | <u>1,647,775,683</u> |
| NE | T OF | PERATING REVENUE | 442,489,752 | 418,100,940 | 405,766,225 |
| D. | Op | erating Expenses | | | |
| | 1. | Salaries and Wages | 170,489,724 | 164,639,656 | <u> 153,036,891</u> |
| | 2. | Physician's Salaries and Wages | - | 36,981 | 51,517 |
| | 3. | Supplies | 93,918,752 | <u>88,161,682</u> | <u>88,675,272</u> |
| | 4. | Taxes | | | |
| | 5. | Depreciation | 22,633,162 | 24,008,010 | 20,332,137 |
| | 6. | Rent | | | |
| | 7. | Interest, other than Capital | | 2,020,515 | 1,659,832 |
| | 8. | Other Expenses (Specify): Fees, Utilities, Other Expense, Amortization, Consolidation Allocation | 87,840,480 | 96,365,062 | 97,938,058 |
| | | Total Operating Expenses | | | |
| E. | Oth | ner Revenue (Expenses) – Net (Specify) | | | |
| NE | T OF | PERATING INCOME (LOSS) | 51,051,877 | 29,528,467 | 29,995,815 |
| F. | Cai | pital Expenditures | | | |
| | 1. | Retirement of Principal | 212,049 | 229,830 | 238,712 |
| | 2. | Interest | 16,555,757 | 15,361,082 | 15,736,535 |
| | | tal Capital Expenditures | | | N A A SUM YOURS |
| | | | 16,767,806 | <u>13,570,397</u> | <u>14,315,415</u> |
| | | PERATING INCOME (LOSS) CAPITAL EXPENDITURES | 34,284,071 | 13,937,555 | 14,020,568 |

Give information for the two (2) years following the completion of this proposal begins in July (Month). *Princeton Transitional Care Unit:*The fiscal year begins in July (Month).

| | | | Year <u>FY 2016</u> | Year <u>FY 2017</u> |
|-----|------|---|---------------------|----------------------------|
| A. | Util | ization Data (patient days) | 8,921 | 9,516 |
| B. | Re | venue from Services to Patients | | |
| | 1. | Inpatient Services | 22,033,086 | 23,502,617 |
| | 2. | Outpatient Services | | |
| | 3. | Emergency Services | | // 4 |
| | 4. | Other Operating Revenue | 9 | |
| | | (Specify) | | |
| | | Gross Operating Revenue | 22,033,086 | 23,502,617 |
| C. | De | ductions for Operating Revenue | • | |
| | 1. | Contractual Adjustments | 16,963,511 | 18,075,572 |
| | 2. | Provision for Charity Care | 740,563 | 792,783 |
| | 3. | Provisions for Bad Debt | 624,654 | 668,700 |
| | | Total Deductions | 18,328,729 | 19,537,055 |
| NE | Г ОР | PERATING REVENUE | 3,704,357 | 3,965,562 |
| D. | Ор | erating Expenses | 70 | |
| | 1. | Salaries and Wages | <u>2,754,971</u> | 2,938,718 |
| | 2. | Physician's Salaries and Wages | ti | 1/2 |
| | 3. | Supplies | 729,559 | 778,218 |
| | 4. | Taxes | | |
| | 5. | Depreciation | 1 | ÷ |
| | 6. | Rent | 11 | |
| | 7. | Interest, other than Capital | | |
| | 8. | Other Expenses (Specify) Other Operating and Management fees | 361,594 | 386,376 |
| | | Total Operating Expenses | 3,846,124 | 4,103,312 |
| E. | Oth | ner Revenue (Expenses) Net (Specify) | | |
| NE. | T OF | PERATING INCOME (LOSS) | (141,767) | (137,750) |
| F. | Ca | pital Expenditures | | |
| | 1. | Retirement of Principal | | |
| | 2. | Interest | | |
| | | Total Capital Expenditures | ÷ | н——— |
| | | PERATING INCOME (LOSS) APITAL EXPENDITURES | (141,767) | (137,750) |

5. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge.

The project's charge information is as follows:

Average gross charge: \$2,470
Average deduction from operating revenue (contractual): \$2,055
Average net charge: \$415

6. A. Please provide the current and proposed charge schedules for the proposal. Discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the proposed project and the impact on existing patient charges.

Outlined below are the room and board current charges for the SNF patients at Princeton Transitional Care. Mountain States Health Alliance does not anticipate room rates to shift as a result of the proposed application.

Current and Projected SNF Room Rates

| Description | FY2014 |
|---------------------------|--------|
| Semi-Private Room OVF/SNF | \$ 647 |
| Private Room - SNF | \$ 776 |

B. Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

The charges associated with skilled nursing services provided at Princeton Transitional Care, which are reasonable in comparison to rates of other providers in the area, will not change as a result of this project. The table below outlines comparison of Medicare/Skilled Care (average daily charge) and Medicaid/TennCare Level II (average daily charge) for Mountain States Health Alliance hospital-based facilities with other hospital-based skilled nursing facilities across Tennessee. Because the charges reported on the Joint Annual Report are combined for both Level I Intermediate and Level II Skilled Nursing Care, only facilities with just skilled nursing care utilization were included below.

Trend in Charge Comparison – Hospital-Based SNFs FY2010 – FY2012

| | Medicare/Skilled Care (Average Daily Charge) | | | Medicaid / TennCare Level | | |
|--|---|---------|---------|---------------------------|---------|-----------------------|
| | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 |
| Princeton Transitional Care | \$1,968 | \$2,213 | \$2,388 | \$2,143 | \$2,156 | \$2,308 |
| Franklin Transitional Care* | ***** | \$2,827 | \$2,711 | | | \$2,514 |
| Indian Path Medical Center Transitional Care | \$2,124 | \$2,558 | \$2,758 | \$2,173 | \$2,860 | \$2,281 |
| Fort Sanders Transitional Care Unit | \$1,253 | \$1,358 | \$1,357 | 2000 | Tancas | |
| St. Mary's Transitional Care Unit | \$1,424 | \$1,441 | \$1,685 | 20101 | - | **** |
| Baptist Memorial Hospital- Memphis SNF | \$2,269 | \$2,535 | \$2,750 | \$2,384 | \$2,979 | \$3,087 |
| Baptist Skilled Rehabilitation Unit | \$1,604 | \$1,808 | \$1,952 | | | ****** |
| Methodist Healthcare Skilled Nursing Facility | \$1,493 | \$1,667 | \$1,718 | isome: | (新元明章) | 8.5518.0 0 |

Source: Joint Annual Reports, only through 2012 is available

The table below depicts slightly higher average daily charges due to the severity of patients accepted by MSHA skilled nursing facilities. Further, the table below outlines a comparison of average charges and average charge per patient day for all Mountain States Health Alliance facilities in primary service area with skilled nursing facilities, other tertiary care facilities across the state and other hospitals in the service area with skilled nursing facilities.

Trend in Charge Comparison – Hospitals 2011-2013

| 2011-2013 | | | | | | |
|-----------------------------|----------------|----------|----------|--------------------------------|----------|----------|
| | Average Charge | | | Average Charge per Patient Day | | |
| | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 |
| Princeton Transitional Care | \$31,036 | \$28,875 | \$28,829 | \$2,151 | \$2,317 | \$2,274 |
| Franklin Transitional Care | \$32,449 | \$33,781 | | \$3,863 | \$2,753 | 2000 |
| IPMC | \$31,401 | \$33,020 | \$37,213 | \$8,662 | \$8,923 | \$9,761 |
| JCMC | \$43,835 | \$45,655 | \$47,980 | \$9,016 | \$9,120 | \$9,792 |
| QRH | \$38,737 | \$41,699 | \$44,091 | \$3,038 | \$3,175 | \$3,367 |
| Service Area - A | \$22,396 | \$22,682 | \$24,740 | \$5,137 | \$5,158 | \$5,559 |
| Service Area - B | \$28,154 | \$29,133 | \$30,177 | \$6,091 | \$6,437 | \$6,880 |
| Hospital - A (East TN) | \$36,624 | \$38,090 | \$40,579 | \$6,564 | \$7,032 | \$7,535 |
| Hospital - B (Middle TN) | \$55,510 | \$55,247 | \$53,618 | \$10,530 | \$10,126 | \$10,262 |
| Hospital - C (West TN) | \$49,402 | \$51,211 | \$54,648 | \$7,646 | \$7,762 | \$7,955 |

Source: Tennessee Hospital Association's MarketIQ

Notes: data includes normal newborns and unknown MS-DRGs; FTC only had 10 admissions in 2011 as it was suspended between 2010 and 2011; it was then active in 2012 and re-suspended in 2013

7. Discuss how projected utilization rates will be sufficient to maintain costeffectiveness.

^{*} Franklin Transitional Care was suspended between 2010 and 2011; it was then active in 2012 and re-suspended in 2013

The services provided by PTC are a much needed benefit to the community and by establishing a partnership with Signature HealthCARE, their management expertise will improve the financial performance of this service during this interim period as the new eldercare campus is constructed which will serve as the ultimate destination for PTC. As a not-for-profit health care provider there are many services provided that often operate with negative margins, however, it is MSHA's mission to "identify and respond to the health care needs of individuals and communities in our region and to assist them in attaining their highest possible level of health", even if it means some services do not operate with a positive margin. This is a needed service and without it, more costs could be incurred due to lengthened patient stays in the hospital if there are reduced options for skilled care transfers.

8. Discuss how financial viability will be ensured within two years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.

Revenue and expense information for this proposal for Years 1 and 2 following project completion is included in the Projected Data Chart. The cash flow as represented is projected to be (\$141,767) and (\$137,750) in years 1 and 2, respectively. As outlined above, the management agreement with Signature HealthCARE is projected to improve the financial performance during this interim period. This is not unique to this patient population, and both MSHA and Signature HealthCARE agree it is important to continue to provide these services to this patient population.

9. Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid, and medically indigent patients will be served by the project. In addition, report the estimated dollar amount of revenue and percentage of total project revenue anticipated from each of TennCare, Medicare, or other state and federal sources for the proposal's first year of operation.

As with all facilities within Mountain States Health Alliance, Princeton Transitional Care is committed to meeting the needs of the community and the region, and will continue the provision of medically necessary care, regardless of socioeconomic status, payor source, age, race or gender. PTC participates in both Federal and State programs, including Medicare, TennCare and Medicaid programs. The following is the breakdown of TennCare, Medicaid, and Medicare for 2014:

| Revenue Type | Total Charges | Payor Mix by Charges |
|-----------------------|---------------|-------------------------|
| Medicare | 7,978,118 | 36% |
| Managed Medicare | 7,674,254 | 35% |
| TennCare | 1,253,225 | 6% |
| Medicaid | 281,422 | 1% |
| Managed Care | 313,953 | 1% |
| Blue Cross | 1,118,528 | 5% |
| United – River Valley | 402,030 | 2% |
| Commercial | 350,617 | 2% |
| Self Pay | 2,740,520 | 12% |
| Other | 59,052 | 0% |

MSHA provides services to more TennCare patients than any other provider in the region and is a leading provider of charity care.

10. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For new projects, provide financial information for the corporation, partnership, or principal parties involved with the project. Copies must be inserted at the end of the application, in the correct alphanumeric order and labeled as Attachment C, Economic Feasibility-10.

The most recent reporting period audited balance sheets and income statements for Mountain States Health Alliance are located in the attachments (audited statements for Fiscal Year 2012 and 2013).

- 11. Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:
 - a. A discussion regarding the availability of less costly, more effective, and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, the applicant should justify why not; including reasons as to why they were rejected.

One option is to suspend Princeton Transitional Care until the new campus is complete. However, this would remove an existing service from the community and interrupt the care continuum needed by the existing patient population. These patients would need to seek care elsewhere, in many cases being forced to leave their local community. This will increase the expenses of those impacted families, but most important reduce the continuity of care and hinder the ability of families to provide the emotional support that patients need from them which aides in their recovery.

Another alternative is to continue to operate Princeton Transitional Care at its current location within Quillen Rehabilitation Hospital. This option would delay improvements in QRH that HealthSouth is finalizing to update and modernize facility infrastructure and clinical programming space which will enhance the patients overall experience and quality of care. If PTC is not temporarily relocated to JCMC, then the patients at QRH will not benefit from these improvements for at least another 18 to 24 months which is the time needed to complete the construction for PTC's ultimate destination.

The proposed project, or third option, involves temporarily relocating Princeton Transitional Care to Johnson City Medical Center at a cost of \$21,000. Given the proposed space at JCMC was previously used to house skilled nursing facility beds, it will require only minimal refurbishments to accommodate PTC. The proposed project will ensure continued provision of this service under the management of a very experienced, large-scale provider with 123 other locations across ten states. MSHA's and Signature HealthCARE's commitment to the continued provision of skilled nursing care in Washington County will ensure the community has access to this much needed, high-quality service as a larger elder care campus is being constructed which will offer an expanded variety of services for this population.

b. The applicant should document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements. It should be documented that superior alternatives have been implemented to the maximum extent practicable.

The component of the project Mountain States Health Alliance has requested in this application involves no new construction, only minor facility refurbishments. As described previously, this alternative temporarily moves a patient population to an appropriate care location while a more comprehensive elder care campus is being constructed.

(III.) CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

1. List all existing health care providers (e.g., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, e.g., transfer agreements, contractual agreements for health services.

Mountain States Health Alliance, Quillen Rehabilitation Hospital, Princeton Transitional Care and Johnson City Medical Center will continue to work closely with other healthcare providers in the region, including: Mountain States Health Alliance hospitals, affiliate hospitals in the Mountain States Healthcare Network, East Tennessee State University and the James H. Quillen College of Medicine, local nursing homes, clinics and other healthcare providers. The East Tennessee State University affiliation calls for JCMC to provide clinical training for medical students and residents in the areas of family medicine and psychiatric services.

2. Describe the positive and/or negative effects of the proposal on the health care system. Please be sure to discuss any instances of duplication or competition arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.

The proposed project is beneficial to the health care system and will result in no negative effects from unnecessary duplication of services or competition. The focus of the project is to enhance the overall post-acute care continuum in Washington County, TN by securing experienced partners who will elevate the quality of care and expand the scope of services available to the elderly population (i.e., assisted living and retirement living).

By leveraging existing resources, MSHA has a plan to temporarily relocate PTC's skilled nursing care beds to JCMC at a minimal cost. This plan ensures the continuation of this much needed service as enhancements are being made to the facility infrastructure and clinical service programming at QRH as well as during the development of an expansive elder care

community which will bring together a variety of needed living and care options of the elderly within the community. The proposal will not have any negative impacts on other providers as it is not seeking additional licensed beds. In addition, the proposal is not seeking the initiation of any new services and will result in a much improved environment to serve the post-acute care needs of the population.

3. Provide the current and/or anticipated staffing pattern for all employees providing patient care for the project. This can be reported using FTEs for these positions. Additionally, please compare the clinical staff salaries in the proposal to prevailing wage patterns in the service area as published by the Tennessee Department of Labor & Workforce Development and/or other documented sources.

The table below depicts the current staffing pattern for Princeton Transitional Care. Following the proposed move to Johnson City Medical Center and the initiation of Signature's management of the skilled nursing unit, there may be some adjustments to the skill level profile of the staff to ensure the most efficient delivery model.

| Position | FTEs |
|---------------------------|------|
| Speech/Language Therapist | 2.0 |
| Registered nurse | 10.5 |
| Licensed practical nurse | 4.2 |
| Patient care partner | 8.4 |
| Activities Coordinator | 1.0 |

The following table includes comparisons of the clinical staff salaries associated with the 34-bed SNF at QRH to the prevailing wage patterns as obtained by the Tennessee Society for Healthcare Human Resources Administration (TSHHRA) survey.

Princeton Transitional Care

Salary Comparisons 2013

| | Statewide TSHHRA | | | Mountain States Health Alliance | | |
|---------------------------|------------------|--------------|--------------|---------------------------------|--------------|--------------|
| POSITION | Average 2013 | Range Min | Range Max | Average 2013 | Range Min | Range Max |
| RN | \$24.97 | \$19.14 | \$30.81 | \$23.73 | \$18.00 | \$29.52 |
| Licensed Practical Nurse | \$15.98 | \$12.53 | \$19.43 | \$15.06 | \$11.25 | \$18.21 |
| Patient Care Partner | \$11.46 | \$8.89 | \$14.04 | \$11.13 | \$9.00 | \$14.76 |
| Speech/Language Therapist | \$31.32 | \$24.12 | \$38.52 | N/A | \$27.40 | \$43.84 |
| Activities Coordinator | \$13.45 | \$10.28 | \$16.62 | \$12.22 | \$8.39 | \$13.42 |

Source: Compdata Tennessee Hospital Association/TSHHRA, 2013; internal data

4. Discuss the availability of and accessibility to human resources required by the proposal, including adequate professional staff, as per the Department of Health, the Department of Mental Health and Developmental Disabilities, and/or the Division of Mental Retardation Services licensing requirements.

Mountain States Health Alliance recruits and retains staff by offering salary and benefit packages appropriate for the market. Future staff additions will be the result of projected utilization which will occur regardless of whether this project is completed.

5. Verify that the applicant has reviewed and understands all licensing certification as required by the State of Tennessee for medical/clinical staff. These include, without limitation, regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review policies and programs, record keeping, and staff education.

Mountain States Health Alliance and Princeton Transitional Care have reviewed and understand all licensing certifications as required by the State of Tennessee. Mountain States Health Alliance has policies and procedures in place governing regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review policies and programs, record keeping, and staff education.

6. Discuss your health care institution's participation in the training of students in the areas of medicine, nursing, social work, etc. (e.g., internships, residencies, etc.).

Mountain States Health Alliance works extensively with local colleges and universities and is affiliated with the James H. Quillen College of Medicine, East Tennessee State University, located in Johnson City, Tennessee. MSHA has the largest number of medical residents in the Tri-Cities area, and this affiliation calls for Johnson City Medical Center to provide clinical training for medical students and residents in the areas of family medicine and psychiatric services.

7. (a) Please verify, as applicable, that the applicant has reviewed and understands the licensure requirements of the Department of Health, the Department of Mental Health and Developmental Disabilities, the Division of Mental Retardation Services, and/or any applicable Medicare requirements.

The proposed project will comply with licensure requirements of the Department of Health, the Department of Mental Health and Developmental Disabilities, the Division of Mental Retardation Services, and any applicable Medicare requirements.

(b) Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.

Licensure:

Princeton Transitional Care is licensed as a skilled nursing facility by the Board for Licensing Health Care Facilities.

Johnson City Medical Center is licensed as a general hospital by the Board for Licensing Health Care Facilities.

Accreditation:

Johnson City Medical Center is accredited by The Joint Commission.

(c) If an existing institution, please describe current standing with any licensing, certifying, or accrediting agency or commission. Provide a copy of the current license of the facility.

Both Princeton Transitional Care and Johnson City Medical Center are currently licensed by the Board of Licensing Health Care Facilities. Copies of the licenses are located in

the attachments [see Attachment C, Contribution to the Orderly Development of Health Care, 7(c)].

(d) For existing licensed providers, document that all deficiencies (if any) cited in the last licensure certification and inspection have been addressed through an approved plan of correction. Please include a copy of the most recent licensure/certification inspection with an approved plan of correction.

A copy of the most recent Summary Statement of Deficiencies and the approved Provider's Plan of Correction, is located in the attachments [see Attachment C, Contribution to the Orderly Development of Health Care, 7(d)]..

8. Document and explain any final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.

Mountain States Health Alliance, owner and operator of Princeton Transitional Care and Johnson City Medical Center, has no final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant.

9. Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project.

There are no final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project.

10. If the proposal is approved, please discuss whether the applicant will provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as required.

The applicant will, if approved, continue to provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients treated the number and type of procedures performed, and other data as requested.

PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper as proof of the publication of the letter of intent.

The full page of the newspaper in which the notice of intent appeared, with mast and dateline intact, is attached.

DEVELOPMENT SCHEDULE

Tennessee Code Annotated § 68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

- 1. Please complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.
- 2. If the response to the preceding question indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph, please state below any request for an extended schedule and document the "good cause" for such an extension.

Form HF0004 Revised 05/03/04 Previous Forms are obsolete

PROJECT COMPLETION FORECAST CHART

Enter the Agency projected Initial Decision date, as published in Rule 68-11-1609(c): 12/17/2014

Assuming the CON approval becomes the final agency action on that date; indicate the number of days from the above agency decision date to each phase of the completion forecast.

This project only involves minor refurbishments (patching and painting) and minor renovations to the day room to ensure compliance with current regulatory statutes.

| <u>Phase</u> | DAYS REQUIRED | Anticipated Date (MONTH/YEAR) |
|--|------------------|----------------------------------|
| 1. Architectural and engineering contract signed | | |
| 2. Construction documents approved by the Tennessee Department of Health | 40 | |
| 3. Construction contract signed | · | - |
| 4. Building permit secured | | |
| 5. Site preparation completed | | <u> </u> |
| 6. Building construction commenced | - | ====== |
| 7. Construction 40% complete | | |
| 8. Construction 80% complete | a | |
| 9. Construction 100% complete (approved for occupancy | 14 | |
| 10. *Issuance of license | = | March 2015 |
| 11. *Initiation of service | (| February 2015 |
| 12. Final Architectural Certification of Payment | | - |
| 13. Final Project Report Form (HF0055) | 30 | March 2015 |

^{*} For projects that do NOT involve construction or renovation: Please complete items 10 and 11 only.

Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

Mountain States Health Alliance Relocation of Princeton Transitional Care to Johnson City Medical Center Project Certificate of Need Application Attachments

<u>Attachment A.3:</u> Corporate Charter and Certificate of Incorporation and Certificate of Existence

Attachment A.4: Organizational Structure

Attachment A.6: Title / Deed / Legal Interest in Site

Attachment B.I: Letter of Intent from Signature HealthCARE

Attachment B.III.(A) & B.IV: Plot Plan & Floor Plans

Attachment C, Need 3: Service Area Maps

Attachment C, Economic Feasibility 1: Construction Costs Documentation

Attachment C, Economic Feasibility 2: Letter of Available Funds

Attachment C, Economic Feasibility 10: Balance Sheet and Income Statement for Mountain States Health Alliance: Most Recent Audited Statements – FY2012 and FY2013

Attachment C, Contribution to the Orderly Development of Health Care, 7(c): Current

Licensure from Tennessee Department of Health and Joint Commission Accreditation

Attachment C, Contribution to the Orderly Development of Health Care, 7(d): Summary

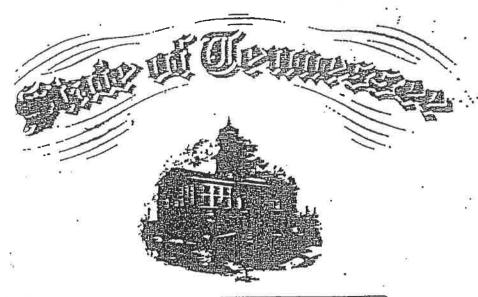
Statement of Deficiencies and (Approved) Provider's Plan of Correction

Attachment C, Proof of Publication: Publication of Intent, Johnson City Press

Attachment: Affidavit for Application

ATTACHMENT A.3.

Corporate Charter
Certificate of Incorporation



Trate of Formers and hereby certifithat Learner Instrument with Certificate of Schmarledgement was filed in my office and neonded mother 12th day of April 1945 in Borporation Record Book MISCELLANEOUS A-2

finge 66

In Testimony Thereof, I have krounters benied my Official Signature, and by order of the Governor, affixed the Great Seal of the State of Jannessee, at the Disportment in the City of Austrille, this

April A.M. 1945

Muge C. Care:

STATE OF SEVERESCE

CERTIFICATE OF INCORPORATION.

ha IT KNORM, that J. L. OUMP. A. W. GRIFFIN, EAM H. SELLS, WALLACE CALVERT, M. T. MCARTHUR and PAUL T. HILL, are hereby constituted a body politic and corporate, by the need and style of MEMORIAL HOSPITAL, for the purpose of building, maintain ing and operating a hospital or hospitals for the sick; of purchesing, receiving by gifts, leasing or otherwise acquiring and holding, any and all real estate mecessary, advisable or useful in the accomplishment or furtherance of the purposes for which this corporation is organized; of leasing, purchasing, raceiving as gifts or otherwise acquiring hospital and hospitals, nurses home or nurses homes, and eny and all property, buildings, structures etc., necessary, adrieable or useful in the furtherance of the purposes for which this corporation is organized; and of purchasing, learing, receiving and accepting as gifts, any and all kinds of parsonal property necessary, advisable or useful in the erection, maintenance and operation of a hospital or hospitals, or useful in the furtherence of the objects for which this corporation is organized, and to do may and all acts in order to establish, maintain and operate a hospital or hospitals in the City of Johnson City, Eashington County, Tennassee.

The general powers of the Corporation shall be:

- (1) To sue end be sued by the corporate name.
- (2) To have and use a common seal which it may alter at pleasure; and if no token seal, then the signature of many, of the corporation by any duly authorized officer shall be binding of
- (3) To receive property, real, personal or and to be purchase, gift, devise or bequest, and to sall the same and sale

," LOS (1950) (1950) E CARRAN (1950) ET, 1951 ply the processe thereof toward the promotion of the objects and purposes for thich this corporation is organized, or to hold may such property and apply the income and proceeds toward such object

- (4) To charge, alter, modify or amend its oberter from time to time in such manner as may be determined by the Board of Directors or Trustees, At any regular meeting or special meeting called for that purpose, or at any regular or special meeting of italizacentive Committee, if and when authorized by a majority vote of said Directors, Trustees or Executive Committee, and in the usual course and manner provided by law for such amandments.
- (5) To establish by-laws and make all rules and regulations not inconsistent with the general laws and Constitution of the State of Tennessee, expedient for the management of the corporate effeirs.
- (6) To appoint such subordinate officers and agents in addition to a President and Secretary and Treasurer that the businees of the corporation may require.
- (7) To designate the names of the officers and fix the compensation of any officers or agents to appointed, except that members of the Board of Directors or Trustees shall receive no compensation.
- (6) To make and enter into any and all contracts, egreements and arrangements necessary, advisable or useful in connection with and for the forwarding of the business of the corporation and the purposes for which the same is organized.
- (9) To sell, exchange, lesse or rake such other disposition of the property of the corporation as may be necessary, proper or useful in the conduct of and forwarding of the business and purposes of the corporation and as may be authorized by its Board of Directors, Trustees or Amentive Committee.

- than five or to increase the number to any number permitted by law and to charge the designation of said Board from the Board of Directors to the Board of Trustees, and to elect from the members of said Board a committee to be known as the Brandtive Committee, to consist of not less than five nor more than seven members, who shall exercise the powers of and be charged with the duties of the Board between meetings of the Board, and to elect from the membership of said Board a President and Vice-President, a Secretary and Assistant Secretary, and a Transumer and Assistant Treasurer, and to combine, if desirable, the offices of Secretary and Treasurer, or the offices of the Assistant Secretary and Assistant Treasurer, and said offices and the other incorporators shall constitute the first Board of Directors of the Corporation.
- members, for hospital room, board or other facilities of the hospital, as may be determined from time to time by the Board of Directors or Trustees or by the President and Secretary of the Corporation if and when said officers shall be thereunto duly authorized by the Board of Directors or Trustees or the Executive Committee, and to contract with others for the performance of any services necessary, advisable or useful in connection with the hospitalization or treatment of patients, upon such terms and for such compensation as may be determined by the Board of Directors or Trustees or Executive Committee, or such officer or officers thereunto duly authorized.
- (12) To make all such rules and regulations governing the conduct of any hospital or hospitals owned, maintained and operated by this corporation and for the employees thereof, for the nurses therein, and for the governing and control of the physicians,

کید فارسیم محمد کی تصحیح محمد کری باود surgeons, destists and other professional men or women authorized to practice for enercise their professions in, or in consection with such mospital or hospitals, and toprovide for, maintain and operate and make rules and regulations for the conduct of a school or schools of training for nurses, and to grant diplomas in nursing, to such extent and in such manner as may be provided by the laws of the State of Tennesses.

the capital fund of the corporation or contributing through gift or otherwise, the sum of \$100.00 or more, shall be entitled to membership in the corporation subject to the provisions hereinafter contained, and shall be issued a cartificate of membership, and at all elections each member shall be entitled to one vote either in person or by proxy, the result of sale to be determined by a majority of the votes dast; provided, however, that notice of any election shall be given by advertisement in a newspaper published in JohnsonCity or in Washington County, Tennassee, or by personal notice mailed to the members at their last known addresses for a day stated on the minutes of the Board of Directors one month preceding the election.

The term of officers may be fixed by the by-laws, said term not, however, to exceed three years, and all officers shall hold their offices until their successors are duly elected and qualified.

Certificates of membership shall be transferable, but only subject to approved by the Board of Directors or Trustees, or the Erecutive Committee of said corporation; the said Board of Directors or Thustees or such Executive Committee shall have the right to refuse to great membership in the corporation, coupled

* `"Les Sivisi (1220) & Sivisi * Lessas (27, 1724, with the right to refuse to accept any subscription or gift made or tendered upon condition that the subscribers or givers shall become numbers of the corporation.

The Board of Trustees shall have the right to fill eny vacancies occurring in its membership between the annual meetings of members or until the next meeting of the membership at which directors or Trustees are to be elected.

The general welfare of society and not individual profits is the object for which this charter is granted and the members
are not stockholders in the legal sense of the term, and no dividends or profits shall be divided among the members. The Board
of Directors or Trustees or Erscutive Committee shall keep a record
of all of their proceedings which shall be at all times subject to
the inspection of any member, and the corporation may establish
branches in any other City or County in the State.

The members may, at any time, voluntarily dissolve the corporation by a conveyance of its assets and property to any other corporation holding a charter from the State, for purposes of general welfare of society and not individual profit, first providing for corporate debts, and any violation of any of the provisions of this charter shall subject the corporation to dissolution at the instance of the State.

This charter is subject to modification and amendment, and in case such modification or emendment is not accepted, the membership and corporate business is to case and the assets and property, after payment of the debts, are to be conveyed as aforesaid to some other corporation holding a charter for purposes and connected with individual profits. Acquiescence in any modification or assendment thus declared, shall be determined in a meeting

of the sembers called for that purpose, and only those voting is favor of the modification shall thereafter compose the corporation.

corporation shall not be employed, directly or indirectly, for the other purpose whatsourer than to accomplish the legitimate objects of its creation, and in no implication shall it engage in any kind of trading operation, or hold any more real estate than is necessary or useful for its legitimate corporate purposes.

Expulsion shall be the only remady for non-payment of dues by the numbers, and there shall be no individual liabilit against members for corporate debts but the antire corporate property shall be liable for the claims of its oraditors, to the extent provided by law.

hereby apply to the State of Tennessee, for a charter of iscorportion for the purposes and with the powers declared in the foregoing instrument.

WITHESS our hands, this the 29 day of the the

1945. -

CONTRACTOR OF THE PARTY.

STATE OF TERRESERE KASHIMITUM COUNTI.

Porsonally appeared before to J. E. Howel m Motary Public in and for the State and County aforestid, J. L. GUMP, A. W. GRIFFIW, SAM H. SELLS, WALLACT CALVERT, M. T. HOARTHUR and PAUL T. HILL, the within named incorporators, with ell of whom I am personally acquainted, and who acknowledged that they executed the within instrument for the purposes therein contained-

WITNESS my band and official saal of office at office in Johnson City, Tennessee, on this the 29 flay of My commission expires op 6

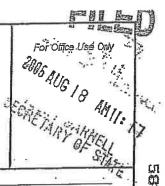
erate of threster washington County \$ 3.40

Les Constitution



Corporate Filings
312 Eighth Avenue North
6th Floor, William R. Snodgrass Tower

ARTICLES OF AMENDMENT TO THE CHARTER (Nonprofit)



| Nashville, TN 37243 | Marie Marie | | | . 4 | 145 |
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| President & CEO | | Q-/2/ | 0 5 | | 1 |
| SIGNER'S CAPACITY | | SNATURE A | coht | | - 1 |
| August 11, 2006 | | ennis Vonderf | | - | - 1 |
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| SS-4416 (Rev. 10/01) | Filing Fee: | \$20 | •) | RDA 1678 | |

Articles of Amendment to the Charter of Mountain States Health Alliance

Pursuant to the provisions of T.C.A. § 48-60-105 of the Temessee Nonprofit Corporation Act, as amended, Mountain States Health Alliance (the "Corporation") hereby adopts the following Articles of Amendment to its Charter:

1. The Corporation's Charter is hereby amended as follows:

- a. The first sentence of the first paragraph of the Charter is hereby deleted in its entirety and replaced by the following: "BE IT KNOWN, that JL. GUMP, A.W. GRIFFIN, SAM H. SELLS, WALLACE CALVERT, M.T. MCARTHUR AND PAUL T. HILL, are hereby constituted a body politic and corporate, by the name and style of MOUNTAIN STATES HEALTH ALLIANCE, for the purpose of building, maintaining and operating a hospital or hospitals for the sick; of purchasing, receiving by gifts, leasing or otherwise acquiring and holding, any and all real estate necessary, advisable or useful in the accomplishment or furtherance of the purposes for which this corporation is organized; of leasing, purchasing, receiving as gifts or otherwise acquiring hospital and hospitals, nurses home or nurses homes, and any and all property, buildings, structures etc., necessary, advisable or useful in the furtherance of the purposes for which this corporation is organized; and of purchasing, leasing, receiving and accepting as gifts, any and all kinds of personal property necessary, advisable or useful in the erection, maintenance and operation of a hospital or hospitals, or useful in furtherance of the objects for which this corporation is organized, and to do any and all acts in order to establish, maintain and operate a hospital or hospitals in the corporation's service area, as such service area is defined by the Board of Directors from time to time."
- b. The second sentence of the second full paragraph on page five of the Charter is hereby deleted in its entirety and replaced by the following: "The Board of Directors or Trustees or Executive Committee shall keep a record of all of their proceedings which shall be at all times subject to the inspection of any member, and the corporation may establish branches in any other City or County in the corporation's service area, as such service area is defined by the Board of Directors from time to time."
- c. The fourth full paragraph beginning on page five of the Charter and continuing on page six is hereby deleted in its entirety.
- The foregoing amendments were adopted by the members at a special meeting duly held on July 31, 2006.

Dated this 11th day of August, 2006.

Mountain States Health Alliance

Dennis Vonderfecht, President & CEO

· Secretary of State Division of Business Services 312 Eighth Avenue North 6th Floor, William R. Snodgrass Tower Nashville, Tennessee 37243

MOUNTAIN STATES HEALTH ALLIANCE 400 NORTH STATE OF FRANKLIN ROAD JOHNSON CITY, TN 37604-6094

THIS WILL ACKNOWLEDGE THE FILING OF THE ATTACHED DOCUMENT WITH AN EFFECTIVE DATE AS INDICATED ABOVE.

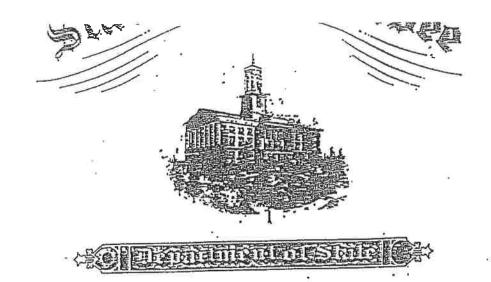
FOR: ARTICLES OF AMENDMENT TO THE CHARTER

OUNTAIN STATES HEALTH ALLIANCE (MSHA) OO N. STATE OF RANKLIN ROAD OHNSON CITY, TN 37604-0000

RECEIVED:

TOTAL PAYMENT RECEIVED:

EY C. DARNELL SECRETARY OF STATE



Certificate

The undersigned, as Secretary of State of the State of Tennessee, hereby certifies that the attached document was received for filing on behalf of

MEMORIAL HOSPITAL, INC. NAME CHANGED TO JOHNSON CITY MEDICAL CENTER HOSPITAL, INC.

was duly executed in accommance with the Tennessee General Torporation Act, was found to conform to low an was filed by the undersigned, as Secretary of State, on the date noted on the document.

Therefore, the undersigned, as Secretary of State, and by virtue of the authority bested in him by law, hereby issues this certificate and attaches hereto the document which was duly filed on April sixth 19.83

Sentin Crands

Becretary of State

by Kay Grands

Beputy

ARTICLE OF AMENDMENT TO THE CHARTER

೧೯

MEMORIAL HOSPITAL, INC.

Pursuant to the provisions of Section 48-303 of the Tennessee General Corporation Act, the undersigned corporation adopts the following articles of amendment to its Charter:

- 1. The name of the exponetion is Memorial Hospital, Inc.
- The emendment adopted is: The name of this corporation shall be changed to: JOHNSON CITY MEDICAL CENTER HOSPITAL, INC. The address of this corporation shall be changed to: 400 State of Franklin Road Johnson City, Tennessee. 37601
- 3. The emendment was duly approved at a meeting of the Board of Directors of Memorial Hospital, Inc. held on February 25, 1983.

 4. This amendment is to be effective as of the date of filing by the Conservy of State.

Dated this 22nd day of March, 1983.

MEMORIAL HOSPITAL, INC. .

Johnson City, Tennessee

Chairman

Betaut, Parit, Belout, Par, Bout & Release Athersticked

Johnson City Medical Center Hospital, Inc.

The following amendment to the Charter of Johns & Cry Medical Center

Hospital, Inc. is made pursuant to T.C.A. § 48-60-102 and account Board of
Directors:

- 1. The current name of this non-profit corporation is Johnson City Medical.

 Center Hospital, Inc.
- 2. The amendment adopted by the Board of Directors is:

The name of this non-profit corporation shall be changed to:

Mountain States Health Alliance

- 3. This amendment was adopted by the Board of Directors at a regularly called monthly meeting on December 21, 1998. The approval of members is not required.
- 4. The Charter does not require approval by third persons pursuant to T.C.A. § 48-60-301.
- 5. This Amendment is to be effective as of the date of filing by the Secretary of State.

Dated this 23rd day of December, 1998.

JOHNSON CITY MEDICAL . CENTER HOSPITAL, INC.

> Tom Hodge Chairman

NA THE

Secretary of State Division of Business Services 312 Eighth Avenue North 6th Floor, William R. Snodgrass Tower Nashville, Tennessee 37243

TO: MILLER MARTIN/DAN ELROD 150 4TH AVE N NASHVILLE, TN 37219

ARTER/QUALIFICATION DATE: 04/12/1945

STATUS: ACTIVE
CORPORATE EXPIRATION DATE: PERPETUAL
CONTROL NUMBER: 0078535
JURISDICTION: TENNESSEE

REQUESTED BY: MILLER MARTIN/DAN ELROD 150 4TH AVE N

NASHVILLE, TN 37219

.CERTIFICATE OF EXISTENCE

I, RILEY C DARNELL, SECRETARY OF STATE OF THE STATE OF TENNESSEE DO HEREBY CERTIFY THAT "MOUNTAIN STATES HEALTH ALLIANCE"

CORPORATION DULY INCORPORATED UNDER THE LAW OF THIS STATE WITH DATE OF REPORATION AND DURATION AS GIVEN ABOVE:
ALL FEES TAXES, AND PENALTIES OWED TO THIS STATE WHICH AFFECT THE TENCE OF THE CORPORATION HAVE BEEN PAID:
THE MOST RECENT CORPORATION ANNUAL REPORT REQUIRED HAS BEEN FILED THIS OFFICE; AND ARTICLES OF DISSOLUTION HAVE NOT BEEN FILED; AND ARTICLES OF TERMINATION OF CORPORATE EXISTENCE HAVE NOT BEEN FILED

FOR: REQUEST FOR CERTIFICATE

ON DATE: 09/07/06

4TH AVENUE NORTH VILLE, TN 37219-2433

RECEIVED:

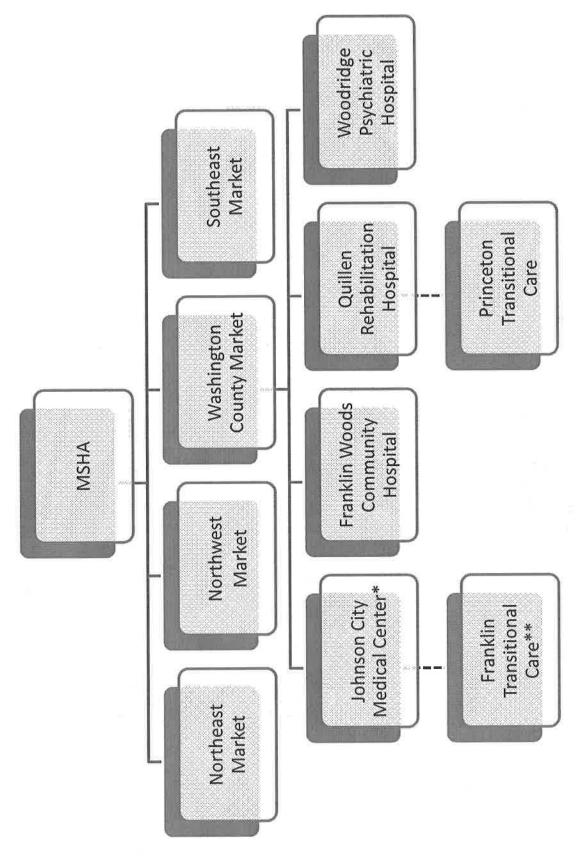
\$0.00

TOTAL PAYMENT RECEIVED:

RILEY C. DARNELL SECRETARY OF STATE

ATTACHMENT A.4. Organizational Structure

Mountain States Health Alliance Washington County Market



Includes Niswonger Children's Hospital
 ** Franklin Transitional Care is currently suspended

ATTACHMENT A.6.

Title / Deed / Legal Interest in Site

WITNESSETH:

THAT FOR AND IN CONSIDERATION of the sum of ONE HUNDRED.

SIXTY-SIX THOUSAND SIX HUNDRED SIXTY-SEVEN DOLLARS AND 28/100 (\$166,667.28) and other good and valuable consideration, the receipt of which is hereby acknowledged, the Party of the First Part has bargained and sold and by these presents does hereby transfer and convey unto the Party of the Second Part, its successors and assigns, the following property, situate, lying and being in the Ninth Civil District of "Shington County, Tennessee, and more particularly bounded and described as follows, to-wit:

PARCEL NO. 1:

BEGINNING at a point in the property of the Veterans Administration corner to the existing hospital site; thence South 08.20' East 343.5' along said VA property to a point; thence South 18.30' West 488.3' to a point; thence South 23.33' West 253.6' to a point; thence South 32.06' West 167.48' to a point in the right-of-way of the new road; thence North 47.04' West 334.87' to a point; thence North 42.34' West 150.00' to a point; thence with a curve to the right radius 895.93' for 502.99' to a point; thence North 10.24' West 150.00' to a point; thence West 5.54' West 283.92' to a point in the existing hospital site; thence South 88.22' East 918.99' to the point of BEGINNING, containing 18.6 acres, more or less.

PARCEL NO. 2:

BEGINNING at a point in the northerly right-of-way of the Southern Railroad corner to the Veterans Administration; thence with said right-of-way in a westerly direction a curve to the right radius 3819. 72' for 632, 92' to a point; thence North 47°04' West 708.50' to a point in the Veterans Administration property; thence with the same North 74° 32' East 1020.03' to a point; thence South 12°25' East 784.00' to the point of BEGINNING, containing 12.7 acres, more or less.

This Instrument was prepared b. James H. Epps, 111.
Attorney at Law
Johnson City, Tunnessen

CITY OF OHKSON CITY. TENKESSE

Diy Atterney

Being a part of the property conveyed to the City of Johnson City by the United States of America by deed dated the 8th day of June, 1977, recorded in Deed Book 512, at page 486, in the Register's Office for Washington County, at Jonesboro, Tennessee.

This conveyance is made upon the condition that the property herein conveyed shall be used in the erection, maintenance and operation of the Memorial Hospital facility, including any repaired, restored, replaced or successor facility, and in the event that said property ceases to be so used, the same, together with all improvements located thereon, and/or made thereto, whether the same be a part of another or other structures or properties, shall revert to the City of Johnson City, its successors or assign Said reversionary interest, however, shall be subordinated by the City as necessary for said Hospital to obtain, from time to time, financing needed by it.

TO HAVE AND TO HOLD the above described land and premises, and appurtenances thereunto belonging, unto the Party of the Second Part, its successors and assigns forever, to and for its only and exclusive use, benefit and behoof.

And the Party of the First Part, for itself, its successors and assigns by these presents, covenants to and with the Party of the Second Part, its successors and assigns, that it is lawfully seized in see simple and possessed of the above described land and premises; that it has a good right, full power, and lawful authority to grant and convey the same in full see simple; that said land and premises are unencumbered except for all valid restrictions, covenants and easements, if any, of record; and that the Party of the First Part, its successors and assigns, shall warrant and forever defend the fittle to said land and premises, unto the Party of the Second Part, its successors and assigns, against the lawful claims and demands of all persons whomsered.

בודי סד וסאומסא כוזיי. דנאאנשנים

. (서당 H. 라드, []]

IN WITNESS WHEREOF, the Parties hereto have caused this dead to executed on this the day and year first herein mentioned. CITY OF JOHNSON CITY Don Arnold, Mayor MEMORIAL HOSPITAL, INC. STATE OF TENNÈSSEE COUNTY OF WASHINGTON Before me, Ruby Russell, a Notary Public in and for the State and County aforesaid, personally appeared DON ARNOLD, with whom I am personally acquainted, and who upon oath acknowledged himself to be Mayor of the CITY OF JOHNSON CITY, the within named bargainor, a municipal corporation, and that he as such Mayor being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the City of Johnson City by himself as Mayor. WITNESS my hand and seal at office in Johnson City, Tennessee,

 $\mathcal{L}_{(n)}^{(n)}$

STATE OF TENNESSEE

COUNTY OF WASHINGTON

Before me, Ruby Russell , a Notary Public in and for the State and County aforesaid, personally appeared W.T. SWOYER, JR., with whom I am personally acquainted, and who upon oath acknowledged himself to be President of MEMORIAL HOSPITAL, INC., a Corporation, and that he as such President being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the

WITNESS my hand and seal at office Johnson City, Tennessee, this

Corporation by himself as President, 30 day of State of Tennessee I, or we, hereby sweer or affirm that the actual consideration for this transfer, or value of the property or interest in property trans-ferred, whichever is prector, is 1664-6-7th Britch amount is regulating or greater than the original which the poperty or Interest and Section tylesportarist mould command at a lost and voluntary sales. Person Or Agent Responsible For Property Taxes

STATE OF TENNESSEE-NA Heceived for Decord the

בנוא סב האיטו כונג. כונג סב

ET H. SPPS, 111 Dry Atlancy

THE THE RESIDENCE TO SPECIAL PROPERTY AND

ATTACHMENT B.I

Letter of Intent from Signature HealthCARE

SIGNATURE HEALTHCARE CONSULTING SERVICES, LLC



12201 Bluegrass Parkway Louisville, Kentucky 40299 Richard L. Tinsley Ph: 502 568 7849 Fax: 502.259 0146 rtinsley@signaturchealthcarelle.com

September 9, 2014

VIA EMAIL ONLY

Mountain States Health Alliance Attn: Grace Pereira

Re: Non-Binding Letter of Intent

Dear Ms. Pereira:

Signature HealthCARE, LLC or its designee ("SHC") is pleased to present to Mountain States Health Alliance ("MSHA") our proposal to manage a 34-bed skilled nursing unit (the "Unit") located within the Johnson City Medical Center located at 400 N. State of Franklin Road, Johnson City, TN 37604. SHC is excited about the prospects of the management arrangement and believes a satisfactory transaction can be concluded expeditiously.

This letter summarizes the major terms and conditions upon which SHC would consider undertaking the management of the Unit. These terms and conditions are as follows:

- 1. (a) SHC would manage the day-to-day operations of the Unit and in return would receive a management fee of five percent (5%) of gross revenues from the operations of the Unit.
 - (b) SHC would be reimbursed for any costs or expenses it incurs in the delivery of its management services to the Unit.
- Completion of the transaction will be conditional, among other matters, upon:
 - a) execution of the definitive Management Agreement containing representations, warranties, covenants and indemnities customary for a transaction of this type;
 - approval of all governmental agencies or authorities having jurisdiction over the Unit, including approval of relevant Certificate of Need Boards, if any, and consent by any lessors or financial institutions of the Unit, as may be required;
 - c) approval by Signature HealthCARE, LLC Executive Committee;

3. Our objective is to enter into definitive agreements by October 31, 2014.

For a period of 60 days you agree to refrain from discussing, soliciting, entertaining or accepting other offers or proposals relating to the acquisition, lease or management of the Unit, and to cause the Unit and its affiliates, directors, employees and agents to do the same. Each of the parties shall be responsible for the fee of its own lawyers, accountants and other advisors and its other expenses or business losses incurred in respect of the negotiation of consummation of the transactions proposed herein. None of the parties hereto shall make any public statement with respect to the transactions proposed herein without the consent of the other parties. Each party will hold the other harmless from any broker's or finder's fees.

With the exception of the immediately preceding paragraph the provisions of which shall be binding, this letter is a statement of our mutual intentions and is not intended to create or result in any legally binding rights or obligations in or upon any of the parties hereto. If the parties hereto have not entered into definitive agreements prior to October 31, 2014, this proposal shall terminate other than with respect to the provisions of this paragraph, which provisions shall survive any such termination.

While there are many issues that will require discussion, we are confident these issues can be resolved expediently.

If you are in agreement with the above, kindly execute and return a duplicate original of this letter no later than September 11, 2014. Please contact me at your convenience so that we may arrange a mutually convenient time to meet and discuss any questions or concerns you may have about this proposal so that we may ensure that it meets your needs. If we do not receive this letter executed by your firm by that date, the offer contained in this letter is automatically withdrawn, null and void.

\ NO

Sincelely

Richard L. Tinsley Chief Development Officer

Accepted and agreed to this 40 day of September, 2014.

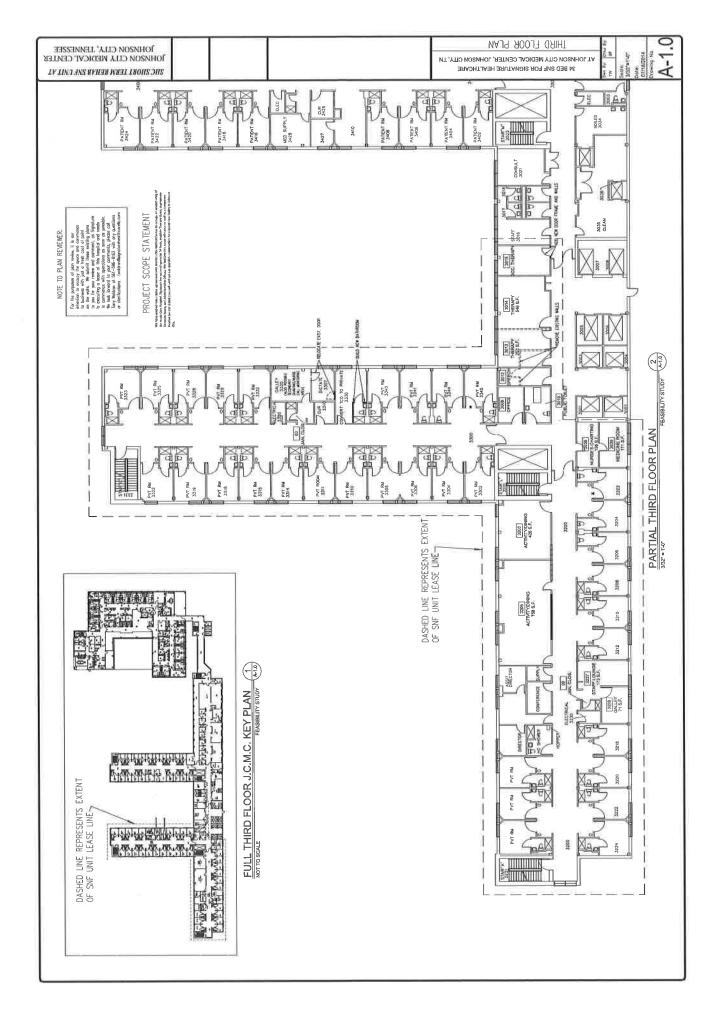
Mountain States Health Alliance

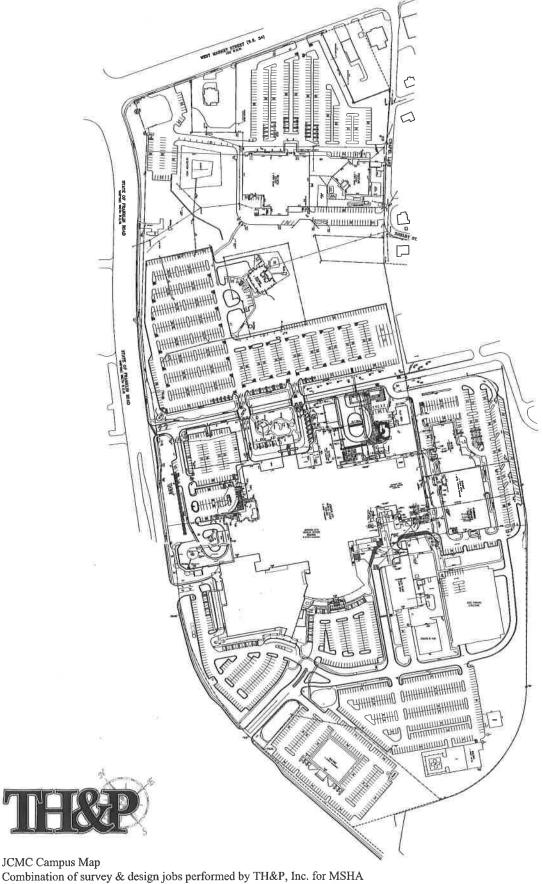
ву:

Date.

ATTACHMENT B.III. (A) & B.IV.

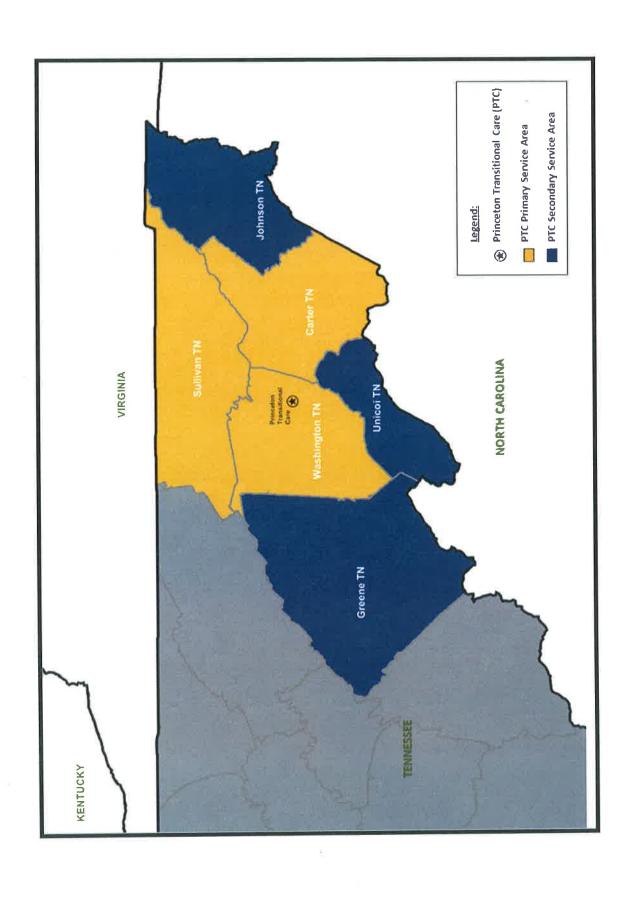
- 1. Plot Plan
- 2. Floor Plans

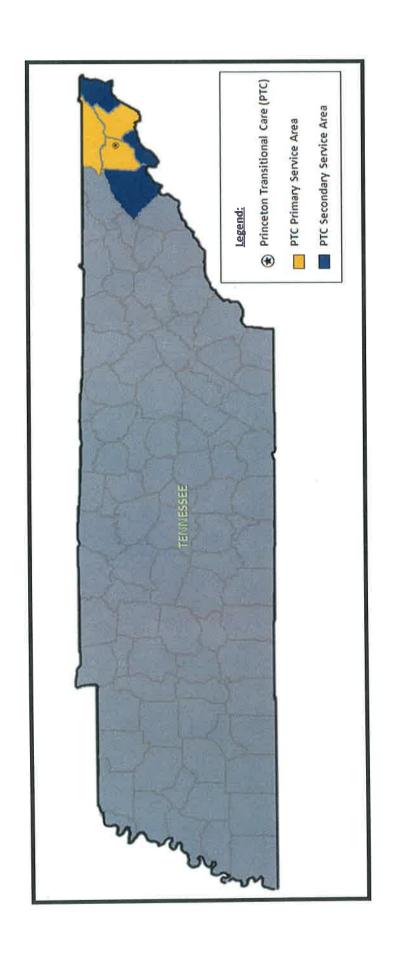




Date: 7/28/14 Scale: 1"=100' ATTACHMENT C, NEED (3)

Service Area Maps





ATTACHMENTS C, ECONOMIC FEASIBILITY (1)

Architect Documentation for Support of Estimated Construction Costs



Billy Teilhet, CBET, CHSP, CHFM, LEED AP Corporate Director Biomedical Services Mountain States Health Alliance 108 Woodlawn, Suite 200A Johnson City, TN 37604 September 4, 2014

Re:

Architects code review for proposed 34 Bed Skilled Nursing Unit at Johnson City

Medical Center 3rd floor

Dear Mr. Teilhet:

During the course of reviewing and adjusting the plans provided to us by MSHA, it is my opinion that after some minor demolition of a few walls, the construction of one resident toilet room, a door relocation, the addition of a new door and filling in an existing opening, we will be able to adaptively reuse a few spaces in such a way that will render our layout in compliance with all applicable codes (2012 IBC, and 2012 NFPA 101) for the jurisdiction (State of Tennessee). The proposed construction associated costs of \$18,000 for these changes are reasonable in my opinion. Furthermore, the plan will contain all the requisite elements required by the 2010 edition of the Guidelines for the design and construction of healthcare facilities as well as the Americans with Disabilities Act Accessibility Guidelines.

I look forward to Signature Healthcare's partnership with Mountain States Health Alliance. Please feel free to contact me with questions or clarifications regarding the aforementioned project, or any other projects, as I am at your disposal.

Respectfully submitted,

faur Sille

James A. (Tony) Waldron, AIA

ATTACHMENTS C, ECONOMIC FEASIBILITY (2)

1. Letter of Available Funds



September 10, 2014

Tennessee Health Services and Development Agency Andrew Jackson Building, Ninth Floor 502 Deaderick Street Nashville, TN 37243

Dear Agency Members:

This letter is to certify that Mountain States Health Alliance will use existing cash reserves to finance the expenses related to the project to relocate Princeton Transitional Care to Johnson City Medical Center.

Sincerely,

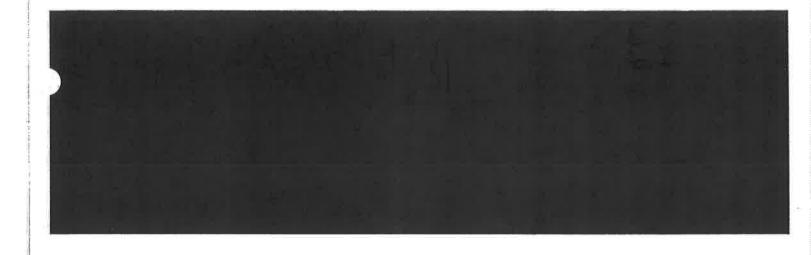
Lynn Krutak

Senior Vice President/CFO

ATTACHMENTS C, ECONOMIC FEASIBILITY (10)

Balance Sheet and Income Statement for Mountain States Health Alliance

- 1. Most Recent Audited Statements (June 30, 2013)
- 2. Most Recent Audited Statements (June 30, 2012)



Audited Consolidated Financial Statements (and Other Information)

Years Ended June 30, 2013 and 2012



€ .

Audited Consolidated Financial Statements (and Other Information)

Years Ended June 30, 2013 and 2012

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PERSHING YOAKLEY & ASSOCIATES, P.C. One Cherokee Mills, 2220 Sutherland Avenue Knoxville, TN 37919

p: (865) 673-0844 | f: (865) 673-0173 www.pyapc.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Mountain States Health Alliance:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mountain States Health Alliance and its subsidiaries (the Alliance), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related statements of operations, changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Alliance's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain States Health Alliance and its subsidiaries as of June 30, 2013 and 2012, and the results of their operations, changes in its net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information: Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2013 on our consideration of the Alliance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Alliance's internal control over financial reporting and compliance.

Knoxville, Tennessee December 16, 2013

Passing Yourly: assusts PC

Consolidated Balance Sheets (Dollars in Thousands)

| | | June | <i>30</i> , | |
|---|-----|---------|-------------|---------|
| = 5) | | 2013 | | 2012 |
| ASSETS | | | | |
| CURRENT ASSETS | | | | * |
| Cash and cash equivalents | \$ | 74,902 | \$ | 65,107 |
| Current portion of investments - Note C | | 20,386 | | 36,557 |
| Patient accounts receivable, less estimated allowances for uncollectible accounts of \$49,449 in 2013 and | | | | |
| \$52,696 in 2012 | | 164,187 | | 147,466 |
| Other receivables, net | | 33,468 | | 30,190 |
| Inventories and prepaid expenses | | 31,073 | | 28,810 |
| TOTAL CURRENT ASSETS | | 324,016 | | 308,130 |
| INVESTMENTS, less amounts required | * 1 | € | | |
| to meet current obligations | | 601,352 | | 560,697 |
| PROPERTY, PLANT AND EQUIPMENT, net | | 884,293 | | 853,625 |
| OTHER ASSETS | | | | |
| Goodwill | | 154,391 | | 154,391 |
| Net deferred financing, acquisition costs and | | | | |
| other charges | | 28,480 | | 28,187 |
| Other assets | | 46,544 | | 39,975 |
| TOTAL OTHER ASSETS | | 229,415 | | 222,553 |

| | - | |
|-----------------|----|-----------|
| \$ 2,039,076 | \$ | 1,945,005 |

| | June | 30, | |
|---|--------------|-----|-----------|
| | 2013 | | 2012 |
| LIABILITIES AND NET ASSETS | | | |
| CURRENT LIABILITIES | | | |
| Accrued interest payable | \$ 19,706 | \$ | 18,525 |
| Current portion of long-term debt and capital lease obligations | 34,417 | | 32,477 |
| Current portion of estimated fair value of derivatives - Note D | ≠ F | | 10,395 |
| Accounts payable and accrued expenses | 94,302 | | 108,870 |
| Accrued salaries, compensated absences and amounts | , | | • |
| withheld | 63,665 | | 55,589 |
| Estimated amounts due to third-party payors, net | 26,775 | | 22,018 |
| TOTAL CURRENT LIABILITIES | 238,865 | | 247,874 |
| OTHER LIABILITIES | | | |
| Long-term debt and capital lease obligations, less | | | |
| current portion | 1,090,348 | | 1,048,098 |
| Estimated fair value of derivatives, less current portion | 8,185 | | 8,986 |
| Deferred revenue | 2,216 | | 3,134 |
| Estimated professional liability self-insurance | 8,758 | | 9,344 |
| Other long-term liabilities | 17,721 | | 16,822 |
| TOTAL LIABILITIES | 1,366,093 | | 1,334,258 |
| COMMITMENTS AND CONTINGENCIES - Notes D, F, G, and N | | | |
| NET ASSETS | | | |
| Unrestricted net assets | | | |
| Mountain States Health Alliance | 490,414 | | 436,388 |
| Noncontrolling interests in subsidiaries | 169,614 | | 162,959 |
| TOTAL UNRESTRICTED NET ASSETS | 660,028 | | 599,347 |
| Temporarily restricted net assets | | | |
| Mountain States Health Alliance | 12,776 | | 11,223 |
| Noncontrolling interests in subsidiaries | 52 | | 50 |
| TOTAL TEMPORARILY | | | |
| RESTRICTED NET ASSETS | 12,828 | | 11,273 |
| Permanently restricted net assets | 127 | | 127 |
| TOTAL NET ASSETS | 672,983 | | 610,747 |
| | | \$ | 1,945,005 |

Consolidated Statements of Operations (Dollars in Thousands)

| | Year Ende | ł Ju | ne 30, |
|--|-----------------|------|-----------|
| | 2013 | | 2012 |
| Revenue, gains and support: | | | |
| Patient service revenue, net of contractual allowances | | | |
| and discounts | \$ 1,045,245 | \$ | 1,075,050 |
| Provision for bad debts | (112,497) | | (122,917) |
| Net patient service revenue | 932,748 | | 952,133 |
| Premium revenue | 1,003 | | - |
| Net investment gain | 40,980 | | 9,734 |
| Net derivative gain | 7,118 | | 1,317 |
| Other revenue, gains and support | 77,455 | | 50,643 |
| TOTAL REVENUE, GAINS AND SUPPORT | 1,059,304 | | 1,013,827 |
| Expenses: | | | |
| Salaries and wages | 355,590 | | 358,607 |
| Physician salaries and wages | 74,258 | | 65,706 |
| Contract labor | 3,942 | | 6,375 |
| Employee benefits | 74,590 | | 69,600 |
| Fees | 105,891 | | 97,959 |
| Supplies | 162,955 | | 170,186 |
| Utilities | 16,857 | | 17,289 |
| Medical costs | 1,039 | | |
| Other | 80,211 | | 76,285 |
| Loss on early extinguishment of debt - Note F | :: | | 2,636 |
| Depreciation | 78,941 | | 73,060 |
| Amortization | 2,260 | | 2,245 |
| Interest and taxes | 43,203 | | 45,903 |
| TOTAL EXPENSES | 999,737 | | 985,851 |
| EXCESS OF REVENUE, GAINS AND SUPPORT | | | |
| OVER EXPENSES AND LOSSES | \$ 59,567 | \$ | 27,976 |

Consolidated Statements of Changes in Net Assets (Dollars in Thousands)

Year Ended June 30, 2013

| | | tain States th Alliance | ncontrolling Interests | Total |
|--|----|----------------------------|---------------------------|---------|
| UNRESTRICTED NET ASSETS: | | | | |
| Excess of Revenue, Gains and Support | | | | Ni. |
| over Expenses and Losses | \$ | 52,692 | \$ 6,875 \$ | 59,567 |
| Pension and other defined benefit plan adjustments | | (172) | (171) | (343) |
| Net assets released from restrictions used for the | | | | |
| purchase of property, plant and equipment | | 1,506 | * 1); | 1,506 |
| Distributions to noncontrolling interests | | | (49) | (49) |
| INCREASE IN UNRESTRICTED | | | | |
| NET ASSETS | | 54,026 | 6,655 | 60,681 |
| TEMPORARILY RESTRICTED NET ASSETS: | | | | |
| Restricted grants and contributions | | 4,969 | 21 | 4,990 |
| Net assets released from restrictions | | (3,416) | (19) | (3,435) |
| INCREASE IN TEMPORARILY | | | | |
| RESTRICTED NET ASSETS | 0 | 1,553 | 2 | 1,555 |
| INCREASE IN TOTAL NET ASSETS | | 55,579 | 6,657 | 62,236 |
| NET ASSETS, BEGINNING OF YEAR | | 447,738 | 163,009 | 610,747 |
| NET ASSETS, END OF YEAR | \$ | 503,317 | \$ 169,666 \$ | 672,983 |

Consolidated Statements of Changes in Net Assets - Continued (Dollars in Thousands)

Year Ended June 30, 2012

| | tain States h Alliance | | controlling interests | Total |
|--|-------------------------------|----|--------------------------|---------------|
| UNRESTRICTED NET ASSETS: | | | | |
| Excess (Deficit) of Revenue, Gains and Support | | | | |
| over Expenses and Losses | \$ 31,702 | | (3,726) | \$ 27,976 |
| Pension and other defined benefit plan adjustments | (1,119) | | (1,115) | (2,234) |
| Net assets released from restrictions used for the | | | | |
| purchase of property, plant and equipment | 1,550 | | = | 1,550 |
| Distributions to noncontrolling interests | - | | (324) | (324) |
| Repurchases of noncontrolling interests | 3,860 | | (3,860) | |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | 35,993 | | (9,025) | 26,968 |
| TEMPORARILY RESTRICTED NET ASSETS: Restricted grants and contributions | 3,860 | | 39 | 3,899 |
| Net assets released from restrictions | (3,352) | 0 | (46) | (3,398) |
| INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS | 508 | | (7) | 501 |
| INCREASE (DECREASE) IN TOTAL NET ASSETS | 36,501 | | (9,032) | 27,469 |
| NET ASSETS, BEGINNING OF YEAR | 411,237 | | 172,041 | 583,278 |
| NET ASSETS, END OF YEAR | 447,738 | \$ | 163,009 | \$ 610,747 |

Consolidated Statements of Cash Flows (Dollars in Thousands)

| | Year Ended. | June 30, |
|--|-------------|-----------|
| | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | †/i |
| Increase in net assets | 62,236 | 27,469 |
| Adjustments to reconcile increase in net assets to | | |
| net cash provided by operating activities: | | |
| Provision for depreciation and amortization | 81,786 | 75,777 |
| Provision for bad debts | 112,497 | 122,917 |
| Loss on early extinguishment of debt | - | 2,636 |
| Change in estimated fair value of derivatives | (457) | 6,198 |
| Equity in net income of joint ventures, net | (636) | (979) |
| Loss (gain) on disposal of assets | (1) | 446 |
| Amounts received on interest rate swap settlements | (6,661) | (7,515) |
| Gain on escrow restructuring - Note F | (13,847) | (5,337) |
| Gain on swap settlement - Note D | (3,020) | 7-4 |
| Income recognized through forward sale agreements | 4 | (864) |
| Gain on termination of swaption and forward sale | | |
| agreements - Note D | | (7,766) |
| Capital Appreciation Bond accretion and other | 3,910 | 3,159 |
| Restricted contributions | (4,990) | (3,899) |
| Pension and other defined benefit plan adjustments | 343 | 2,234 |
| Increase (decrease) in cash due to change in: | | |
| Patient accounts receivable | (129,218) | (138,996) |
| Other receivables, net | (3,192) | (3,501) |
| Inventories and prepaid expenses | (2,263) | 155 |
| Trading securities | (17,845) | 107,593 |
| Other assets | (1,073) | (2,733) |
| Accrued interest payable | 1,181 | (1,522) |
| Accounts payable and accrued expenses | (20,263) | 4,131 |
| Accrued salaries, compensated absences and | | - |
| amounts withheld | 8,076 | (2,211) |
| Estimated amounts due to third-party payers, net | 4,757 | 3,247 |
| Other long-term liabilities | 556 | 236 |
| Estimated professional liability self-insurance | (586) | (348) |
| Total adjustments | 9,054 | 153,058 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 71,290 | 180,527 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (105,751) | (132,890) |
| Purchases of land held for expansion | (5,769) | (, |
| Additions to goodwill | (25, 25) | (5,725) |
| Purchases of held-to-maturity securities | (8,722) | (9,516 |
| Net distribution from joint ventures and unconsolidated affiliates | 732 | 882 |
| Proceeds from sale of property, plant and equipment | 335 | 1,881 |
| | | |
| NET CASH USED IN INVESTING ACTIVITIES | (119,175) | (145,368) |

| | | Year Ended June 30, | | | |
|--|-----------|---------------------|----------|----------|--|
| | | 2013 | | 2012 | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Payments on long-term debt and capital lease obligations, | | | | | |
| including deposits to escrow | | (75,066) | | (71,997) | |
| Payment of acquisition and financing costs | | (2,314) | | (2,742) | |
| Proceeds from issuance of long-term debt and other | | | | | |
| financing arrangements | | 117,085 | | 67,451 | |
| Payment on termination of derivative agreements - Note D | | (7,375) | | (93,353) | |
| Gain on escrow restructuring - Note F | | 13,847 | | 5,337 | |
| Net amounts received on interest rate swap settlements | | 6,661 | | 7,515 | |
| Restricted contributions received | | 4,842 | _ | 4,969 | |
| NET CASH PROVIDED BY (USED IN) | | | | | |
| FINANCING ACTIVITIES | | 57,680 | | (82,820) | |
| NET INCREASE (DECREASE) IN CASH | | | | | |
| AND CASH EQUIVALENTS | | 9,795 | | (47,661) | |
| CASH AND CASH EQUIVALENTS, beginning of year | | 65,107 | | 112,768 | |
| CASH AND CASH EQUIVALENTS, end of year | \$ | 74,902 | \$ | 65,107 | |
| SUPPLEMENTAL INFORMATION AND NON-CASH TRANSA | | ONS: 37,023 | \$ | 41,168 | |
| Cash paid for interest | <u>\$</u> | 37,023 | <u> </u> | 41,100 | |
| Cash paid for federal and state income taxes | \$ | 616 | \$ | 336 | |
| Construction related payables in accounts payable and accrued expenses | \$ | 11,598 | \$ | 6,821 | |
| Property acquired through capital lease arrangement | \$ | | \$ | 13,959 | |
| Payable on termination of forward sale agreements in accounts payable and accrued expenses | \$ | /= | \$ | 13,429 | |
| Land held for expansion placed in use | \$ | | \$ | 1,610 | |

During the year ended June 30, 2012, the Alliance refinanced previously issued debt of \$174,547.

Notes to Consolidated Financial Statements (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE A-ORGANIZATION AND OPERATIONS

Mountain States Health Alliance (the Alliance) is a tax-exempt entity with operations primarily located in Washington, Sullivan, and Carter counties of Tennessee and Smyth, Wise, Dickenson, Russell and Washington counties of Virginia. The initial funds for the establishment of the Alliance in 1945 were provided by individuals and various institutions.

The primary operations of the Alliance consist of ten acute and specialty care hospitals, as follows:

- Johnson City Medical Center (JCMC) licensed for 658 beds
- Indian Path Medical Center (IPMC) licensed for 261 beds
- Smyth County Community Hospital (SCCH) licensed for 153 beds
- Norton Community Hospital (NCH) licensed for 129 beds
- Sycamore Shoals Hospital (SSH) licensed for 121 beds
- Johnston Memorial Hospital (JMH) licensed for 116 beds
- Franklin Woods Community Hospital (FWCH) licensed for 80 beds
- Russell County Medical Center (RCMC) licensed for 78 beds
- Dickenson Community Hospital (DCH) licensed for 25 beds
- Johnson County Community Hospital (JCCH) licensed for 2 beds

The Alliance has a 50.1% interest in JMH. JMH is also the sole member of Abingdon Physician Partners (APP), a non-taxable corporation that owns and manages physician practices.

The Alliance has a 50.1% interest in NCH. NCH is also the sole member or shareholder of DCH and Norton Community Physician Services, LLC (NCPS), a taxable corporation that consists of physician practices and a pharmacy and Community Home Care (CHC), a taxable corporation that provides home medical equipment.

The Alliance has an 80% interest in SCCH. SCCH is the sole shareholder of Southwest Community Health Services, Inc. (SWCH), a taxable entity that operates a pharmacy and provides other health services.

The activities and accounts of JMH, NCH and SCCH are included in the accompanying consolidated financial statements.

The Alliance is the sole shareholder of Blue Ridge Medical Management Corporation (BRMM), a for-profit entity that owns and manages physician practices and provides other healthcare services to patients in Tennessee and Virginia. BRMM also operates as a medical office real estate developer by owning, selling and leasing real estate to physician practices and other entities. BRMM is either the sole shareholder, a significant shareholder, or member of the following consolidated organizations:

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE A-ORGANIZATION AND OPERATIONS - Continued

Mountain States Physician Group, Inc. (MSPG): A company that contracts with physicians to provide services to BRMM physician practices.

Mountain States Properties, Inc. (MSPI): An entity that owns and manages certain real estate (primarily medical office buildings) and provides rehabilitation and fitness services.

Mediserve Medical Equipment of Kingsport, Inc. (Mediserve): A company that provides durable medical equipment services.

Kingsport Ambulatory Surgery Center (KASC) (d.b.a. Kingsport Day Surgery): A joint venture operating as an outpatient surgery center which performs procedures primarily in otolaryngology, orthopedics, ophthalmology, and general surgery. BRMM has a 43% ownership of KASC and maintains control over KASC through a management agreement. The accounts and activities of KASC are included in the accompanying consolidated financial statements.

Piney Flats Urgent Care (PFUC): A for-profit entity that provides urgent care patient services. BRMM has a 75% ownership of PFUC. The accounts and activities of PFUC are included in the accompanying consolidated financial statements.

Wilson Pharmacy, Inc. (Wilson): In August 2012, BRMM acquired Wilson, a company that owns and operates retail pharmacies. BRMM purchased 100% of the total issued and outstanding capital stock of Wilson for \$8,114 and recognized goodwill of \$5,725.

The Alliance is the primary beneficiary of the activities of Mountain States Foundation, Inc. (MSF), a not-for-profit foundation formed to coordinate fundraising and development activities of the Alliance. The Alliance is also the beneficiary of the Mountain States Health Alliance Auxiliary (Auxiliary), a not-for-profit organization formed to coordinate volunteer activities of the Alliance. The activities and accounts of MSF and the Auxiliary are included in the accompanying consolidated financial statements.

The Alliance is a 99.6% shareholder of Integrated Solutions Health Network, LLC (ISHN). The primary function of ISHN is to establish, operate and administer a provider-sponsored health care delivery network. ISHN is the sole shareholder of the following subsidiaries:

CrestPoint Health Insurance Company (CHIC): A for-profit insurance company licensed in the State of Tennessee which provides network access and administration and third-party Medicare administrator services. During 2013, CHIC entered into a risk-based contract with the Center for Medicare & Medicaid Services (CMS) to provide or arrange for the provision of healthcare

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE A-ORGANIZATION AND OPERATIONS - Continued

services to senior citizens who have Medicare Part A, Medicare Part B and Medicare Part D entitlements.

AnewCare Collaborative (AnewCare): A for-profit accountable care organization which began participating in the CMS's Medicare Shared Savings Program (MSSP) in July 2012.

NOTE B-SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Alliance and its subsidiaries after elimination of all significant intercompany accounts and transactions.

Noncontrolling Interests in Subsidiaries: The Alliance's accompanying consolidated financial statements include all assets, liabilities, revenues, expenses, and changes in net assets, including amounts attributable to the noncontrolling interests. Noncontrolling interests represent the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to the Alliance. For the years ending June 30, 2013 and 2012, the Alliance attributed an Excess (Deficit) of Revenue, Gains and Support over Expenses and Losses of \$6,875 and (\$3,726), respectively, to the noncontrolling interests in JMH, NCH, SCCH, KASC, PFUC and ISHN based on the noncontrolling interests' respective ownership percentage.

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents: Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents designated as assets limited as to use or uninvested amounts included in investment portfolios are not included as cash and cash equivalents on the Consolidated Balance Sheets.

Investments: Investments as reported in the Consolidated Balance Sheets include trading securities and held-to-maturity securities (Note C). The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-320, Investments — Debt and Equity Securities, allows not-for-profit organizations to report in a manner similar to business entities by identifying securities as available-for-sale or held-to-maturity and to exclude the unrealized gains and losses on

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE B-SIGNIFICANT ACCOUNTING POLICIES - Continued

those securities from the Performance Indicator (as defined below). Investments which the Alliance has the positive intent and ability to hold to maturity are considered as held-to-maturity. Substantially all other investments are considered as trading securities.

On June 30, 2013, the Alliance determined that it no longer intended to hold certain of its held-to-maturity investment portfolios to maturity and reclassified investments with an amortized cost of \$161,929 into the trading designation. As a result, the Alliance recognized net unrealized gains of approximately \$8,255 in the accompanying 2013 Consolidated Statement of Operations. The investments that remain designated as held-to-maturity are limited as to use under a safekeeping agreement or are otherwise unavailable for disposition.

Management annually evaluates investments designated as held-to-maturity and recognizes any "other-than-temporary" losses as deductions from the Performance Indicator (as defined below). Management's evaluation considers the amount of decline in fair value, as well as the time period of any such decline. Management does not believe any investment classified as held-to-maturity is other-than-temporarily impaired at June 30, 2013.

Within the trading securities portfolio, all debt securities and marketable equity securities with readily determinable fair values are reported at fair value based on quoted market prices. Investments without readily determinable fair values are reported at estimated fair market value pursuant to FASB ASC 825, Financial Instruments.

Realized gains and losses are computed using the specific identification method for cost determination. Interest and dividend income is reported net of related investment fees.

Investments in joint ventures are generally reported under the equity method of accounting, which approximates the Alliance's equity in the underlying net book value, unless the ownership structure requires consolidation. Other assets include investments in joint ventures of \$2,057 and \$2,153 at June 30, 2013 and 2012, respectively. Subsequent to June 30, 2013, the Alliance liquidated a portion of its investment in one joint venture (Note S).

Inventories: Inventories, consisting primarily of medical supplies, are stated at the lower of cost or market.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost, or if donated, at the fair value at the date of gift. Generally, depreciation is computed by the straight-line method over the estimated useful life of the asset. Equipment held under capital lease obligations is

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

amortized under the straight-line method over the shorter of the lease term or estimated useful life. Amortization of buildings and equipment held under capital leases is shown as a part of depreciation expense and accumulated depreciation in the accompanying consolidated financial statements. Renewals and betterments are capitalized and depreciated over their useful life, whereas costs of maintenance and repairs are expensed as incurred.

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The amount capitalized is net of investment earnings on assets limited as to use derived from borrowings designated for capital assets.

The Alliance reviews capital assets for indications of potential impairment when there are changes in circumstances related to a specific asset. If this review indicates that the carrying value of these assets may not be recoverable, the Alliance estimates future cash flows from operations and the eventual disposition of such assets. If the sum of these undiscounted future cash flows is less than the carrying amount of the asset, a write-down to estimated fair value is recorded. The Alliance did not recognize any impairment losses during 2013 and 2012.

Other assets include property held for resale and property held for expansion of \$20,220 and \$14,451, respectively, at June 30, 2013 and 2012. Property held for resale and property held for expansion primarily represent land contributed to, or purchased by, the Alliance plus costs incurred to develop the infrastructure of such land. Management annually evaluates its investment and records non-temporary declines in value when it is determined the ultimate net realizable value is less than the recorded amount. No such declines were identified in 2013 and 2012.

Goodwill: Goodwill represents the difference between the acquisition cost of assets and the estimated fair value of net tangible and any separately identified intangible assets. In accordance with ASC 350, Intangibles – Goodwill and Other, goodwill is evaluated for impairment at least annually. The reporting unit for evaluation of the majority of the Alliance's goodwill is the aggregate acute-care operations. Management performed an evaluation of goodwill for impairment considering qualitative and quantitative factors and does not believe it is more likely than not that goodwill associated with any of its reporting units is impaired as of June 30, 2013.

Deferred Financing, Acquisition Costs and Other Charges: Other assets, including deferred financing, acquisition costs and other charges, total \$28,480 and \$28,187 at June 30, 2013 and 2012, respectively. Deferred financing costs are amortized over the life of the respective bond issue principally using the average bonds outstanding method. Other intangible assets include licenses and similar assets and are being amortized over the intangible's estimated useful life under the straight-line method.

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE B-SIGNIFICANT ACCOUNTING POLICIES - Continued

Prior to 2009, the Alliance routinely financed interest rate swap and other derivative transaction issuance costs through modification of future settlement terms. As such, the unamortized issuance costs of these derivatives are included as deferred financing costs in the accompanying Consolidated Balance Sheets and are being amortized over the term of the respective derivative instrument. The unpaid issuance costs are included as a part of the estimated fair value of derivatives in the accompanying Consolidated Balance Sheets. Subsequent to 2009, interest rate swap and derivative transaction issuance costs were expensed as incurred.

Derivative Financial Instruments: As further described in Note D, the Alliance is a party to various interest rate swaps. These financial instruments are not designated as hedges and have been presented at estimated fair market value in the accompanying Consolidated Balance Sheets as either current or long-term liabilities, based upon the remaining term of the instrument. Changes in the estimated fair value of these derivatives are included in the Consolidated Statements of Operations as part of net derivative gain.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Self-insurance liabilities include estimated reserves for reported and unreported professional liability claims (Note G) and are recorded at the estimated net present value of such claims. Other long-term liabilities include contributions payable and obligations under deferred compensation arrangements, a defined benefit pension plan, a post-retirement employee benefit plan as well as other liabilities which management estimates are not payable within one year.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Alliance's revenue recognition policies related to self-pay and other types of payers emphasize revenue recognition only when collections are reasonably assured.

Patient accounts receivable are reported net of both an estimated allowance for uncollectible accounts and an estimated allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid, TennCare and other third-party payment programs. Current operations include a provision for bad debts in the Consolidated Statements of Operations estimated based upon the age of the patient accounts receivable, historical writeoffs and recoveries and any unusual circumstances (such as local, regional or national economic conditions) which affect the collectibility of receivables, including management's assumptions about conditions it expects to exist and courses of action it expects to take. Additions to the allowance for uncollectible accounts result from the

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE B-SIGNIFICANT ACCOUNTING POLICIES - Continued

provision for bad debts. Patient accounts written off as uncollectible are deducted from the allowance for uncollectible accounts.

For uninsured patients that do not qualify for charity care, the Alliance recognizes revenue on the basis of discounted rates under the Alliance's self-pay patient policy. Under the policy, a patient who has no insurance and is ineligible for any government assistance program has his or her bill reduced to the amount which generally would be billed to a commercially insured patient.

The Alliance's policy does not require collateral or other security for patient accounts receivable. The Alliance routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Charity Care: The Alliance accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Alliance and various guidelines outlined by the Federal Government. These policies define charity as those services for which no payment is anticipated and, as such, charges at established rates are not included in net patient service revenue. The estimated direct and indirect cost of providing these services totaled approximately \$24,354 and \$24,709 in 2013 and 2012, respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated.

In addition to the charity care services described above, the Alliance provides a number of other services to benefit the poor for which little or no payment is received. Medicare, Medicaid, TennCare and State indigent programs do not cover the full cost of providing care to beneficiaries of those programs. The Alliance also provides services to the community at large for which it receives little or no payment.

Excess (Deficit) of Revenue, Gains and Support Over Expenses and Losses: The Consolidated Statements of Operations and the Consolidated Statements of Changes in Net Assets includes the caption Excess (Deficit) of Revenue, Gains and Support Over Expenses and Losses (the Performance Indicator). Changes in unrestricted net assets which are excluded from the Performance Indicator, consistent with industry practice, include contributions of long-lived assets or amounts restricted to the purchase of long-lived assets, certain pension and related adjustments, and transactions with noncontrolling interests.

Income Taxes: The Alliance is classified as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been made in the accompanying consolidated financial statements for the Alliance and its tax-exempt subsidiaries. Taxable entities account for income taxes in accordance with FASB ASC 740, Income

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Taxes (Note L). The Alliance has no significant uncertain tax positions at June 30, 2013 and 2012. At June 30, 2013, tax returns for 2009 through 2013 are subject to examination by the Internal Revenue Service.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor or time restriction expires; that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Consolidated Statements of Operations and Changes in Net Assets as net assets released from restrictions. The Alliance's policy is to net contribution and grant revenues against related expenses and present such amounts as a part of other revenue, gains and support in the Consolidated Statements of Operations. Permanently restricted net assets have been restricted by donors to be maintained by the Alliance in perpetuity.

Premium Revenue: Premiums earned include premiums from individuals and Medicare. Medicare revenue includes premiums based on predetermined prepaid rates under Medicare risk contracts. Premiums are recognized in the month in which the members are entitled to health care services. Premiums collected in advance are deferred and recorded as unearned premium revenue. Premium deficiency losses are recognized when it is probable that expected future claim expenses will exceed future premiums on existing contracts. CHIC evaluated the need for a premium deficiency reserve and recorded an estimated reserve of \$1,500 at June 30, 2013.

Medicare Shared Savings Program (MSSP): AnewCare, an Accountable Care Organization (ACO), participates in CMS's Medicare Shared Savings Program which is designed to facilitate coordination and cooperation among providers to improve the quality of care for Medicare beneficiaries and reduce unnecessary costs. ACOs participating in the program are assigned beneficiaries by CMS and are entitled to share in the savings if they are able to lower growth in Medicare Parts A and B fee-for-service costs while meeting performance standards on quality of care. The program is based on performance periods, the first of which specific to AnewCare is the period of July 2012 to December 2013. Utilizing statistical data and the methodology employed by CMS, AnewCare has estimated and recognized \$2,644 of net shared savings through June 30, 2013. Variability is inherent in the estimation methodology and due to uncertainties in the estimation; it is probable that management's estimates of shared savings, if any, will change by the end of the performance period, and such change could be significant.

Electronic Health Record Incentives: The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE B-SIGNIFICANT ACCOUNTING POLICIES - Continued

record (EHR) technology. The incentive payments are calculated based upon estimated discharges, charity care and other input data and are predicated upon the Alliance's attainment of program and attestation criteria and are subject to regulatory audit. During the years ending June 30, 2013 and 2012, the Alliance recognized EHR incentive revenues of \$22,474 and \$4,894, respectively, comprised of \$17,340 of Medicare revenues in 2013 and \$5,134 and \$4,894 of Medicaid revenues in 2013 and 2012, respectively. EHR incentive revenues are included in other revenue, gains and support in the accompanying Consolidated Statements of Operations.

The Alliance incurs both capital expenditures and operating expenses in connection with the implementation of its various EHR initiatives. The amount and timing of these expenditures does not directly correlate with the timing of the Alliance's receipt or recognition of the EHR incentive payments.

Medical Costs: The cost of health care services is recognized in the period in which services are provided. Medical costs include an estimate of the cost of services provided to CHIC members by third-party providers, which have been incurred but not provided to CHIC. The estimate for incurred but not reported claims is based on actuarial projections of costs using historical paid claims and industry data. Due to uncertainties in the estimation, it is at least reasonably possible that management's estimates of incurred but not reported claims will change in 2014, although the amount of the change cannot be estimated.

Fair Value Measurement: The Alliance had previously adopted FASB ASC 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements.

Subsequent Events: The Alliance evaluated all events or transactions that occurred after June 30, 2013, through December 16, 2013, the date the consolidated financial statements were available to be issued. During this period management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2013 consolidated financial statements, other than as discussed in Note S.

Reclassifications: Certain 2012 amounts have been reclassified to conform with the 2013 presentation in the accompanying consolidated financial statements. Prior to 2013, the Alliance classified only those activities directly associated with its mission of providing healthcare services, as well as other activities deemed significant to its operations, as operating activities. In 2013, the Alliance no longer presents an intermediate measure of operating income (loss) and the 2012 Consolidated Statement of Operations has been reformatted to be consistent with this presentation.

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE C-INVESTMENTS

Assets limited as to use are summarized by designation or restriction as follows at June 30:

| | | 2013 | 2012 |
|---|---|-----------------|----------|
| Designated or restricted: | | | |
| Under safekeeping agreements and other | | \$ 10,350 \$ | 24,026 |
| By Board for capital improvements | * | <u> </u> | · 4 |
| Under bond indenture agreements: | | | |
| For debt service and interest payments | | 60,823 | 77,602 |
| For capital acquisitions | | 36,989 | 29,578 |
| p 0 | | 108,162 | 131,210 |
| Less: amount required to meet current obligations | К | (20,386) | (36,557) |
| | | \$ 87,776 \$ | 94,653 |
| | | | |

Assets limited as to use consist of the following at June 30:

| | 2013 | 2012 |
|---|---------------|---------------|
| Cash, cash equivalents and money market funds | \$ 57,190 | \$ 80,304 |
| U.S. Government securities | 11,164 | 8,582 |
| U.S. Agency securities | 30,407 | 40,398 |
| Corporate and foreign bonds | 7,530 | - |
| Municipal obligations | 1,871 | 1,926 |
| | \$ 108,162 | \$ 131,210 |

Trading securities consist of the following at June 30:

| | | 2013 | 2012 | |
|---|----|---------|---------------|--|
| Cash, cash equivalents and money market funds | \$ | 9,488 | \$ 5,186 | |
| U.S. Government securities | | 18,481 | 10,697 | |
| U.S. Agency securities | | 19,620 | 26,165 | |
| Corporate and foreign bonds | | 172,350 | 52,581 | |
| Municipal obligations | | 17,749 | 961 | |
| Preferred and asset backed securities | | 3,491 | 11,183 | |
| U.S. equity securities | | 10,944 | 28,344 | |
| Mutual funds | | 186,028 | 141,968 | |
| Other | | 37,353 | 34,880 | |
| | \$ | 475,504 | \$ 311,965 | |

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE C--INVESTMENTS - Continued

Held-to-maturity securities (other than assets limited as to use) are carried at amortized cost and consist of the following at June 30:

| | *** | 2013 | | 2012 |
|---|-----|--------|----|---------|
| Cash, cash equivalents and money market funds | \$ | 75 | \$ | 298 |
| Corporate and foreign bonds | | 33,060 | | 138,232 |
| Municipal obligations | | 4,937 | | 15,549 |
| - | \$ | 38,072 | \$ | 154,079 |

Held-to-maturity securities had gross unrealized gains and losses of \$15 and \$1,421, respectively, at June 30, 2013 and \$11,432 and \$33, respectively at June 30, 2012. At June 30, 2013 and 2012, the Alliance held no securities within the held-to-maturity portfolio which had been at an unrealized loss position for over one year. At June 30, 2013, the contractual maturities of held-to-maturity securities were \$2,702 due in one year or less, \$17,923 due from one to five years and \$17,447 due after five years. At June 30, 2012, the contractual maturities of held-to-maturity securities were \$11,225 due in one year or less, \$67,532 due from one to five years and \$75,322 due after five years.

The net investment gain is comprised of the following for the years ending June 30:

| 2013 | | 2012 |
|--------------|------------------------------|-----------------|
| \$ 13,881 | \$ | 15,213 |
| 3,074 | | (2,595) |
| 24,025 | | (2,884) |
| \$ 40,980 | \$ | 9,734 |
| \$ | \$ 13,881 3,074 24,025 | 3,074 24,025 |

At June 30, 2013 and 2012, the Alliance held investments in certain limited partnerships and hedge funds with a recorded value of \$37,353 and \$34,880, respectively, that have a wide range of investment strategies with various levels of risk. These funds are included within trading securities and do not have readily determinable fair values. The funds are reported at estimated fair market value pursuant to FASB ASC 825, Financial Instruments.

NOTE D-DERIVATIVE TRANSACTIONS

The Alliance is a party to a number of derivative transactions. These derivatives have not been designated as hedges and are valued at estimated fair value in the accompanying Consolidated Balance Sheets. Management's primary objective in holding such derivatives is to introduce a

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE D-DERIVATIVE TRANSACTIONS - Continued

variable rate component into its fixed rate debt structure. Under the terms of these agreements, changes in the interest rate environment could have a significant effect on the Alliance. Deferred financing and acquisition costs, net of amortization, include \$5,791 and \$6,135 at June 30, 2013 and 2012, respectively, related to these swaps.

These derivative agreements require that the Alliance post additional collateral for the derivatives' fair market value deficits above specified levels. As of June 30, 2013, the Alliance was not required to post additional collateral. Such investments totaling \$13,809 are included as assets limited as to use in the accompanying 2012 Consolidated Balance Sheet.

The following is a summary of the interest rate swap agreements at June 30, 2013 and 2012:

| Notional | | | Payments by: | | | Istimated Fa | dr Value |
|------------|----------------|--------------------------------------|--|-----------------------|-----|--------------|----------|
| Amount | Term | Counterparty | Receive | Pay | | 2013 | 2012 |
| \$ 170,000 | 4/2008-4/2026 | Bank of America, Merrill Lynch | 1.27% 7/2012-4/2013 1.07% 5/2013-6/2013 | 0.00% | \$ | 3,895 | 3,500 |
| 95,000 | 4/2008-4/2026 | Bank of America, Merrill Lynch | 1.27% 7/2012-4/2013 1.08% 5/2013-6/2013 | 0.00% | | 2,205 | 1,983 |
| 173,030 | 4/2008-4/2034 | Bank of America, Merrill Lynch | 1.32% 7/2012-4/2013 1.12% 5/2013-6/2013 | 0.00% | | (710) | (513) |
| 82,055 | 12/2007-7/2033 | Bank of America, Merrill Lynch | 67% USD-LIBOR- BBA | 0.312% + USD-SIFMA | | (9,322) | (9,520) |
| 50,000 | 2/2008-7/2038 | Bank of America, Merrill Lynch | 67% (USD-LIBOR- BBA + 0.15%) | USD-SIFMA | | (4,218) | (3,895) |
| 21,400 | 7/2007-7/2015 | Bank of America, Merrill Lynch | 1.05% + USD-SIFMA | 4.50% | | 35 | (320) |
| 5,524 | Various | Various | Various | Various | | (70) | (221) |
| | | | | | _\$ | (8,185) | (8,986) |

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE D-DERIVATIVE TRANSACTIONS - Continued

The terms of five of these agreements were modified without settlement during 2013. No gain or loss was realized as a result of the modifications although such modifications did impact the estimated fair value of the interest rate swaps as of June 30, 2013.

The net investment derivative gain is comprised of the following for the years ending June 30:

| | | 2013 | 2012 |
|---|---------------|-------|------------------------|
| Settlement income and other Change in estimated fair value | \$ 6,66 45 | | \$ 7,515 (6,198) |
| - | \$ | 7,118 | \$ 1,317 |

These fair values are based on the estimated amount the Alliance would receive, or be required to pay, to enter into equivalent agreements at the valuation date and include an estimated credit value adjustment. The fair value of various derivatives are netted on the Consolidated Balance Sheets based on management's evaluation of the settlement provisions in the master contract. Gross positions of these derivatives are indicated in the table above. Due to the nature of these financial instruments, such estimates of fair value are subject to significant change in the near term.

The Alliance was previously a party to a total return swap with Lehman Brothers as the counterparty. Lehman Brothers filed for bankruptcy in September 2008. The Alliance subsequently received notification from Lehman Brothers Special Financing, Inc. indicating the intent of the counterparty to terminate this agreement effective January 1, 2009. The Alliance and Lehman Brothers Special Financing, Inc. were unable to reach a settlement agreement at the time the swap was terminated. An estimated liability related to the agreement of \$10,395 was recognized by the Alliance at June 30, 2012. In addition, a third party held investments with a fair market value of approximately \$13,809, at June 30, 2012, as collateral. In 2013, the parties reached a settlement agreement and in full settlement of the liability, the Alliance paid the counterparty \$7,375 from the funds held as collateral and the remaining collateral was returned to the Alliance. A gain of approximately \$3,020 was recognized on the settlement, which is included within other revenue, gains and support in the accompanying 2013 Consolidated Statement of Operations.

In June 2004, the Alliance entered into an agreement with Bear Stearns (acquired by JP Morgan) whereby Bear Stearns purchased from the Alliance an option to enter into an interest rate swap agreement (swaption) with the Alliance beginning July 1, 2011. During 2012, the counterparty expressed their intent to exercise the swaption on January 1, 2012 and the Alliance exercised its right to terminate the swaption at its fair market value. To effectuate the termination, the Alliance transferred \$93,353 of a Guaranteed Investment Contract (GIC), to the third party as a termination payment. A gain of \$3,058 was recognized on the termination, which is included within other

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE D--DERIVATIVE TRANSACTIONS - Continued

revenue, gains and support in the accompanying 2012 Consolidated Statement of Operations. Net derivative gain in the accompanying 2012 Consolidated Statement of Operations includes an unrealized loss of \$4,676 related to this derivative, prior to termination.

Also in June 2004, the Alliance entered into two related forward sale agreements with the counterparty to the swaption agreements and the Master Trustee of the Series 2000 Bonds. In June 2012, the Alliance and the counterparty terminated the agreements. To effectuate the termination, the Alliance agreed to pay \$13,429 to the counterparty. The termination payable is included in accounts payable and accrued expenses in the accompanying 2012 Consolidated Balance Sheet. The Alliance recognized a gain of \$4,708 on the termination of these agreements, which is included within other revenue, gains and support in the accompanying 2012 Consolidated Statement of Operations.

NOTE E-PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30:

| <u> </u> | | 2013 | 2012 |
|--|-----|------------|-----------|
| Land | \$ | 60,180 \$ | 57,525 |
| Buildings and leasehold improvements | | 718,489 | 661,146 |
| Property and improvements held for leasing | | 77,767 | 74,914 |
| Equipment | | 664,469 | 571,774 |
| Buildings and equipment held under capital lease | , I | 671 | 20,540 |
| | | 1,521,576 | 1,385,899 |
| Less: Allowances for depreciation and amortization | | (704,002) | (626,552) |
| 9 | | 817,574 | 759,347 |
| Construction in progress (Note N) | (8 | 66,719 | 94,278 |
| 2 | \$ | 884,293 \$ | 853,625 |

Accumulated depreciation and amortization on property and improvements held for leasing purposes is \$25,146 and \$22,951 at June 30, 2013 and 2012, respectively. Net interest capitalized was \$4,163 and \$3,110 for the years ended June 30, 2013 and 2012, respectively.

During 2012, the Alliance executed an Amendment and Mutual Release Agreement with a vendor whereby the Alliance waived its right to take any action with respect to prior contracts in exchange for professional services in future periods, primarily related to accelerated deployment of information

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE E-PROPERTY, PLANT AND EQUIPMENT - Continued

systems. The Alliance recognized approximately \$3,386 and \$3,799 in 2013 and 2012 as additions to property, plant and equipment with an offsetting gain related to the agreed-upon value of such professional services. The Alliance anticipates recognition of additional amounts in future periods as such services are provided.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt and capital lease obligations consist of the following at June 30:

| | | | Outstonding B. | |
|--|---|--|-----------------|----------------|
| Description | Maturities | Rates | 2013 | 2012 |
| 2012A Hospital Revenue Boods, net of mamortized premium of \$1,817 at June 30, 2013 | \$55,000 uninsured term bonds, due August 15, 2042, subject to early redemption | 5,00% \$ | 56,817 \$ | 18 |
| 2012B Hospital Revenue Bonds | \$28,095 uninsuced term bonds, due August 15, 2042, subject to early redemption or tender | Variable, 0.06% at June 30, 2013 | 28,095 | 7 |
| 2012C Hospital Revenue Bonds | \$9,785 uninamed term bonds, the August 15, 2042, subject to early redemption or tender | Variable, 0.06% at June 30, 2013 | 9,785 | a ^s |
| 011A Hospital Revenue Bonds | \$61,185 uninsured term bonds, due July 1, 2033, subject to early redemption or trader | Vaziable, 0.06% at June 30, 2013 | 61,185 | 65,260 |
| 011B Hospital Revenue Bonds | \$20,000 uninsured term bonds, due July 1, 2033, subject to early redemption or tender | Variable, 0.06% at June 30, 2013 | 20,000 | 20,000 |
| 2011C Hospital Revenue Bonds | \$48,974 uninsured term bonds, due July 1, 2031, subject to early redemption or tender | Variable, 0.06% at June 30, 2013 | 48,974 | 49,875 |
| 2011D Hospital Revenue Bonds | \$60,705 uninsured term bonds, due July 1, 2031, subject to early redemption or trader | Variable, 0.06% at June 30, 2013 | 60,705 | 60,705 |
| 201 B. Tuxabia Bonds | \$15,960 minsured term bonds, due July 1, 2026, subject to early redemption or tender | Variable, 0.17% at June 30, 2013 | 15,960 | 15,960 |
| 2011 Hospital Facility Revenue Refunding and improvement Bonds (JMH) | \$23,095 uninsured term bonds, due July 1, 2033, subject to early redemption or tender | Variable, 1.14% at June 30, 2013 | 23,095 | 24,870 |
| 2010A Hospital Revenus Bonds, net of mamortized premium of \$978 and \$1,017 at fune 30, 2013 and 2012, respectively | \$28,780 uninsured serially, through 2020 \$14,985 uninsured term bonds, due July 1, 2025 \$19,230 uninsured term bonds, due July 1, 2030 \$39,570 uninsured term bonds, due July 1, 2038 \$55,480 uninsured term bonds, due July 1, 2038 | 3.00% to 5.00% 5.38% 5.63% 6.50% 6.00% | 159,023 | 162,952 |
| 2010B Hospital Revenue Bonds, not of pagmortized premium of \$626 and \$669 at June 30, 2013 and 2012, respectively | \$20,295 uninsured scrially, through 2020 \$4,355 uninsured term bonds, due July 1, 2023 \$4,250 uninsured term bonds, due July 1, 2028 | 2.50% to 5.00% 5.00% 5.50% | 29, 5 26 | 33,129 |
| 2009A Hospital Revenue Bonds, not of mamortized discount of \$113 and \$117 at June 30, 2013 and 2012, respectively | \$655 unimented term bonds, due July 1, 2019 \$1,730 unimented term bonds, due July 1, 2029 \$3,105 unimented term bonds, due July 1, 2038 | 7,25% 7,50% 7,75% | 5,377 | 5,443 |
| 2009B Hospital Revenue Bonds | \$5,470 uninsured term bonds, due July 1, 2038 | 8.00% | 5,470 | 5,535 |
| 2009C Hospital Rovenus Bonds, not of unamortized discount of \$2,246 and \$2,334 at June 30, 2013 and 2012, respectively | \$18,800 uninsured term bonds, due July 1, 2019 \$20,000 uninsured term bonds, due July 1, 2029 \$74,855 uninsured term bonds, due July 1, 2038 | 7.25% 7.50% 7.75% | 111,409 | 113,621 |
| 2008A Hospitul Revenue Bonds | \$13,245 uninsured term bonds, due July 1, 2038, subject to early redemption or tender | Variable, 0.06% at June 30, 2013 | 13,245 | 13,245 |
| 2008B Hospital Reversus Bonds | \$51,965 uninsured term bonds, due July 1, 2038, subject to early redemption or tender | Variable, 0.06% at June 30, 2013 | 51,965 | 52,930 |
| 2007B Texable Hospital Revenue Bonda, sub- series B-1 and B-2 | \$123,335 uninsured term bonds, due July 1, 2033, subject to early redemption or tendor, sub-series B-3 redocmed in 2013 | Variable, 0.17% to 0.18% at June 30, 2013 | 123,335 | 156,760 |

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

| | | | Outstanding Be | lance |
|--|---|-------------------------------------|-----------------------|-----------------------|
| Description | Maturities | Zates | 2013 | 2012 |
| 2006A Hospital First Mortgage Revenue Bonds, net of unamortized premium of \$135 and \$141 at June 30, 2013 and 2012, respectively | \$5,295 uninsured serially, through 2019 \$7,375 uninsured term bonds, due July 1, 2026 \$20,505 uninsured term bonds, due July 1, 2031 \$135,175 uninsured term bonds, due July 1, 2036 | 5.00% 5.25% 5.50% 5.50% | 168,485 | 169,136 |
| 2001A Hospital First Mortgage Revenue Bonds | \$21,400 term bands, due July 1, 2026, subject to early redemption or tender | 4,50% | 21,400 | 22,300 |
| 2000A Hospital First Mortgage Revenue Refunding Bonds | \$34,645 incored Capital Appreciation Bonds, interest and principal due July 1, 2026 through 2030 | 6.63% | 34,645 | 32,431 |
| 2000C Hospital First Mortgage Revenue Bonda | \$32,040 insured term bonds, due July 1, 2026 | 8.50% | 32,040 | 33,230 |
| 2000D First Mortgage Taxable Bonds | \$13,800 insured term bonds, due July 1, 2026 | 8.50% | 13,800 | 14,315 |
| Capitalized lease obligations secured by equipment | Various monthly payments of principal and interest | Various | 1,240 | 1,645 |
| \$1,593 note payable, secured by equipment | Various annual principal payments through July 2014 | Unspecified | 896 | 1,343 |
| Capitalized lease obligation secured by medical office building (JMH) | Lease was paid-off in 2013 | N/A | 2 | 15,498 |
| Master installment payment agreement | Various quarterly payments through May 2014 | Unspecified | 2,320 | 4,438 |
| Master installment payment agreement, secured by equipment | Various quarterly psyments through May 2014 | Unspecified | 1,503 | 3,032 |
| \$1,640 note payable, secured by land | Monthly principal payments of \$10 through maturity in July 2015 | Unspecified | 1,640 | 1,870 |
| \$985 in promissory notes accured by assets of Emmuse Community Healthcare, LLC | Various monthly principal and interest payments through 2019 | 3.00% - 3.75% | 985 | 1,052 |
| \$17,607 term note | Monthly principal and interest payments of \$60 beginning November 2012 matering September 2015; remaining principal due October 2015 | Variable, 1.14% at June 30, 2013 | 17,607 | * |
| \$4,238 in notes payable, secured by land | Annual principal payments of \$215 beginning October 2013 maturing October 2015; remaining principal due October 2016. Interest is payable monthly. | Variable, 0.19% at June 30, 2013 | 4,238 | × |
| | Less current portion | = | 1,124,765 (34,417) | 1,080,575 (32,477) |
| | | | S 1,090,348. S | 1,048,098 |

Series 2012 Bonds: In September 2012, the Alliance issued \$55,000 (Series 2012A) fixed rate and \$28,095 (Series 2012B) variable rate tax-exempt Hospital Revenue Bonds through The Health and Educational Facilities Board of the City of Johnson City, Tennessee, and \$9,785 (Series 2012C) variable rate tax-exempt Hospital Revenue Bonds through the Industrial Development Authority of Wise, Virginia (collectively, the Series 2012 Bonds). The proceeds from the Series 2012A Bonds will be used to finance a surgery center project at JCMC and pay issuance costs related to these Bonds. The proceeds from the Series 2012B and 2012C Bonds will be used to finance or refinance capital improvements and equipment acquisitions and to pay issuance costs associated with these Bonds. The timely payment of the Series 2012B and Series 2012C Bonds is secured by irrevocable transferable direct-pay letters of credit which expire September 17, 2015.

Series 2011 Bonds: In October 2011, the Alliance issued \$65,260 (Series 2011A) and \$20,000 (Series 2011B) variable rate tax-exempt Hospital Revenue Bonds through The Health and

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

Educational Facilities Board of the City of Johnson City, Tennessee, \$49,875 (Series 2011C) and \$60,705 (Series 2011D) variable rate tax-exempt Hospital Revenue Bonds through the Industrial Development Authority of Smyth, Virginia and \$15,960 (Series 2011E) variable rate Taxable Bonds (collectively, the Series 2011 Bonds). The proceeds from the Series 2011A and Series 2011B Bonds were used to finance certain capital acquisitions in the State of Tennessee and pay issuance costs related to these Bonds. The proceeds from the Series 2011C and 2011D Bonds were used to refinance the 2001 NCH Hospital Refunding and Improvement Revenue Bonds, finance capital acquisitions for NCH, JMH and SCCH and to pay issuance costs associated with these Bonds. The Series 2011E Bond proceeds were used to refinance certain capital acquisitions of SCCH and BRMM and pay issuance costs. The timely payment of the Series 2011 Bonds is secured by a letter of credit which expires October 19, 2014.

In November 2011, JMH issued \$24,870 (JMH Series 2011) variable rate tax-exempt Hospital Facility Revenue Refunding and Improvement Bonds through the Industrial Development Authority of Smyth County. The proceeds from the JMH Series 2011 Bonds were used to refinance the 1998 Hospital Refunding and Improvement Revenue Bonds, refinance existing indebtedness incurred to finance capital acquisitions and to pay issuance costs associated with the Bonds.

Series 2010 Bonds: In April 2010, the Alliance issued \$168,080 (Series 2010A) and \$35,935 (Series 2010B) fixed rate Hospital Refunding Revenue Bonds (collectively, the Series 2010 Bonds). Proceeds of the Series 2010A and the Series 2010B Bonds were used to refinance outstanding indebtedness, specifically related to the Alliance's facilities in Tennessee and in Virginia, respectively, fund debt service reserve funds and pay costs of issuance.

Series 2009 Bonds: In March 2009, the Alliance issued \$5,560 (Series 2009A), \$5,535 (Series 2009B) and \$115,955 (Series 2009C) fixed rate Hospital Revenue Bonds (collectively, the Series 2009 Bonds). The proceeds of Series 2009 Bonds were used to refinance a portion of the outstanding Series 2006C Taxable Notes, which were originally issued to finance a capital commitment to SCCH and purchase certain leased assets, finance the acquisition of a majority ownership in JMH, fund a debt service reserve fund and pay costs of issuance. The portion of the 2006C taxable notes which were not refinanced with the Series 2009 Bonds were repaid with cash on hand.

Series 2008 Bonds: In February 2008, the Alliance issued \$72,770 (Series 2008A) and \$54,230 (Series 2008B) variable rate Hospital Revenue Bonds (collectively, the Series 2008 Bonds). The proceeds of Series 2008 Bonds were primarily used to finance certain future capital projects for the Alliance's hospital facilities and for the repayment of previously issued 2008 Taxable Notes used for the acquisition of RCMC. The payment of principal and interest on the Series 2008 Bonds and the purchase price of any tendered bonds on each series are secured by a separate, irrevocable,

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

transferable, direct-pay letter of credit. A portion (\$59,525) of the Series 2008A Bonds were repaid from proceeds of the Series 2010 Bonds.

Series 2007 Bonds: In December 2007, the Alliance issued \$104,355 (Series 2007A), \$327,170 (Series 2007B taxable) and \$36,575 (Series 2007C) variable rate Hospital Revenue Bonds (collectively, the Series 2007 Bonds). The proceeds of Series 2007 Bonds were primarily used to early extinguish a portion of the outstanding Series 2000A Bonds, all of the outstanding 2000B Bonds, all of the outstanding Series 1994 Bonds, and all of the outstanding Series 2006B Bonds; to finance the acquisition of a majority ownership in NCH, and to finance certain capital improvements and equipment acquisitions for the Alliance's hospital facilities. A portion of the outstanding Series 2007A (\$91,685) and Series 2007C (\$32,840) Bonds were repaid from proceeds of the Series 2010 Bonds.

During 2012, the Alliance redeemed \$115,135 of the Series 2007B-1 Bonds and \$29,405 of the Series 2007B-3 Bonds. The Alliance redeemed \$26,530 of the Series 2007B-3 Bonds during 2013. The payment of principal and interest on the outstanding Sub-Series 2007B Bonds and the purchase price of any tendered bonds on each series are secured by a separate, irrevocable, transferable, direct-pay letter of credit.

Series 2006 Bonds: During 2006, the Alliance issued \$173,030 Hospital First Mortgage Revenue Bonds (Series 2006A) and \$66,500 Hospital First Mortgage Variable Rate Revenue Bonds (Series 2006B). The proceeds from the sale of the Series 2006A Bonds were used to finance certain future and prior capital projects for the Alliance's hospital facilities and to refund certain existing indebtedness, specifically the Series 2001B Bonds (discussed below) and certain existing short and intermediate term loans and leases, as well as fund a debt service reserve fund. The Series 2006B Bond proceeds were substantially used to refund the remaining outstanding principal of the Series 2001B Bonds and establish a debt service reserve fund.

Series 2001 Bonds: During 2001, the Alliance issued \$26,000 Hospital First Mortgage Revenue Bonds (Series 2001A). The Alliance redeemed the 2001A Bonds and released a new Series 2001A to Bank of America Merrill Lynch during 2012.

Series 2000 Bonds: The Hospital First Mortgage Revenue Refunding (Series 2000A Bonds) and First Mortgage Revenue Refunding Bonds (Series 2000B Bonds), were used to advance refund previously existing indebtedness as well as fund a required debt service reserve fund. The Hospital First Mortgage Revenue Bonds (Series 2000C Taxable Bonds) were used to refinance certain mortgage indebtedness of BRMM, and to refund other previously existing indebtedness. The

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

proceeds from the sale of the First Mortgage Bonds (Series 2000D Taxable Bonds) were used primarily to fund working capital for the Alliance.

The Series 2000A Bonds included at issue date \$14,680 of insured Capital Appreciation Bonds. Such bonds bear a 0% coupon rate and have a yield of 6.625% annually. The Alliance recognizes interest expense and increases the amount of outstanding debt each year based upon this yield. Total principal and interest due at maturity (2026 through 2030) is \$93,675.

Derecognized Bonds: The advance refunding of previously issued debt requires funds to be placed in irrevocable trusts in order to satisfy remaining scheduled principal and interest payments. Management, upon advice of legal counsel, believes the amounts deposited in such irrevocable trust accounts have contractually relieved the Alliance of any future obligations with respect to this debt, and the debt and escrowed securities are not considered liabilities or assets of the Alliance. Therefore, such debt has been derecognized. Debt outstanding and not recognized in the Consolidated Balance Sheet at June 30, 2013 due to previous advance refundings of the Series 2000A Bonds, Series 2000B Bonds, Series 1998C Bonds, and Series 1991 Bonds, totaled approximately \$213,060.

The assets placed in the irrevocable trust accounts are also not recognized as assets of the Alliance. These assets consist primarily of various investments, as permitted by bond indentures and other documents, including United States Treasury obligations, an investment contract with MBIA Insurance Corporation (MBIA) in the original amount of \$54,300, as well as the Series 2000C and 2000D Bonds which were purchased with the proceeds of the 2000A and 2000B Bonds specifically for the purpose of utilizing the Series 2000C and 2000D Bonds in the irrevocable trust. Therefore, certain of the assets held in the irrevocable trust accounts have future income streams contingent upon payments by the Alliance.

The Alliance instructed the trustee of the 1998C Bonds to liquidate certain investments held in the related irrevocable trust account and to redeem a portion of the 1998C Bonds with the proceeds from the liquidation. The fair value of the liquidated assets exceeded the payment necessary to redeem the 1998C Bonds and the excess was paid to the Alliance. As a result of this transaction, the Alliance recognized a net gain in 2013 and 2012 of \$13,847 and \$5,337, respectively, which is included in other revenue, gains and support in the accompanying Consolidated Statements of Operations.

Variable Rate Issuances: The variable rate of interest on the Series 2012, Series 2011, Series 2008 and Series 2007 Bonds is determined weekly by the Remarketing Agent, as the rate equal to the lowest rate which, in regard to general financial conditions and other special conditions bearing on the rate, would produce as nearly as possible a par bid for the Bonds in the secondary market. In no

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE F-LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

event shall the variable rate on the Bonds during any period where interest is calculated weekly exceed the lesser of 12% annually or the maximum contract rate of interest permitted by the applicable State of issue. The Alliance has the option, upon written approval of the holder of the letters of credit, the Remarketing Agent and others, to convert to a medium-term rate period or to a fixed rate.

Early Redemption: Essentially all of the Alliance's bonds are subject to redemption prior to maturity, including optional, mandatory sinking fund and extraordinary redemption, at various dates and prices as described in the respective Bond indentures and other documents.

Other Bonds, Notes Payable and Financing Arrangements: The Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding Bonds. The Bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. The JMH Series 2011 Hospital Refunding and Improvement Revenue Bonds are secured by pledged revenues of JMH, as defined in the Credit Agreement.

The scheduled maturities and mandatory sinking fund payments of the long-term debt and capital lease obligations (excluding interest), exclusive of net unamortized original issue discount and premium, at June 30, 2013 are as follows:

| Year Ending June 30, | | | |
|----------------------|-------|-------------|-----------------|
| 2014 | # III | | \$ 34,417 |
| 2015 | 0 10 | | 28,191 |
| 2016 | 57 | | 45,427 |
| 2017 | | | 32,290 |
| 2018 | | | 29,253 |
| Thereafter | | | 953,990 |
| \$\frac{1}{2} = 47 | | | 1,123,568 |
| | 3.5 | Net premium | 1,197 |
| | 22 | | \$ 1,124,765 |
| | | | |

Certain members of the Alliance and JMH are each members of separate Obligated Groups. The bond indentures, master trust indentures, letter of credit agreements and loan agreements related to the various bond issues and notes payable contain covenants with which the respective Obligated Groups must comply. These requirements include maintenance of certain financial and liquidity ratios, deposits to trustee funds, permitted indebtedness, use of facilities and disposals of property.

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS - Continued

These covenants also require that failure to meet certain debt service coverage tests will require the deposit of all daily cash receipts of the Alliance into a trust fund. Management has represented the Alliance and JMH are in compliance with all such covenants at June 30, 2013.

In connection with the tax-exempt bonds, the Alliance is required every five years, and at maturity, to remit to the Internal Revenue Service amounts which are due related to positive arbitrage on the borrowed funds. The Alliance performs such computations when required and recognizes any liability at that time. Management does not believe there are any significant arbitrage liabilities at June 30, 2013 or 2012.

During 2012, the Alliance recognized a \$2,636 loss on early extinguishment of debt representing the write off of previously deferred and unamortized financing costs generally related to the refinanced or otherwise redeemed portion of the Series 2007B Bonds, Series 1998 JMH Bonds and the Series 2001 NCH Bonds.

NOTE G-SELF-INSURANCE PROGRAMS

The Alliance is substantially self-insured for professional and general liability claims and related expenses. The Alliance maintains a \$25,000 umbrella liability policy that attaches over the self-insurance limits of \$10,000 per claim and a \$15,000 annual aggregate retention. The Alliance's insurance program also provides professional liability coverage for certain affiliates and joint ventures.

The Alliance is also substantially self-insured for workers' compensation claims in the State of Tennessee and has established estimated liabilities for both reported and unreported claims. The Alliance maintains a stop-loss policy that attaches over the self-insurance limits of \$1,000 per occurrence and \$1,000 annual aggregate retention. In the State of Virginia, the Alliance is not self-insured and maintains workers' compensation insurance through commercial carriers.

At June 30, 2013, the Alliance is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through June 30, 2013 that may result in the assertion of additional claims, and other unreported claims may be asserted arising from services provided in the past. Alliance management has estimated and accrued for the cost of these unreported claims based on historical data and actuarial projections. The estimated net present value of malpractice and workers' compensation claims, both reported and unreported, as of June 30, 2013 and 2012 was \$12,348 and \$12,896, respectively. The discount rate utilized was 5% at June 30, 2013 and 2012.

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE G-SELF-INSURANCE PROGRAMS - Continued

Additionally, the Alliance is self-insured for employee health claims and recognizes expense each year based upon actual claims paid and an estimate of claims incurred but not yet paid, including a catastrophic claims reserve based on historical claims in excess of \$75. Such amount is included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

NOTE H--NET PATIENT SERVICE REVENUE

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the accompanying Consolidated Statements of Operations is as follows for the years ended June 30:

| | 2013 | 2012 | | |
|--|------------------------------|------|------------------------|--|
| Inpatient service charges Outpatient service charges | \$ 2,086,519 2,120,400 | \$ | 2,095,036 1,982,154 | |
| Gross patient service charges Less: | 4,206,919 | | 4,077,190 | |
| Estimated contractual adjustments and other discounts Charity care | 3,058,580 103,094 | | 2,899,678 102,462 | |
| Provision for bad debts | 112,497 | | 122,917 | |
| | 3,274,171 | | 3,125,057 | |
| Net patient service revenue | \$ 932,748 | \$_ | 952,133 | |

Patient service revenue, net of contractual allowances and discounts is composed of the following for the years ended June 30:

| | | 2013 | 2012 |
|-----------------------------|---|-------------------|--------------------------|
| Third-party payers Patients | | 946,979 98,266 | \$ 968,101 106,949 |
| Patient service revenue | 6 | \$ 1,045,245 | \$ 1,075,050 |

Patient deductibles and copayments under third-party payment programs are included within the patient amounts above.

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE H-NET PATIENT SERVICE REVENUE - Continued

Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Alliance analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not paid or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Alliance records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between rates and the amounts actually collected after all reasonable collections efforts have been exhausted is charged against the allowance for uncollectible accounts.

The Alliance's allowance for doubtful accounts totaled \$49,449 and \$52,696 at June 30, 2013 and 2012, respectively. The allowance for doubtful accounts decreased from 26% of patient accounts receivable, net of contractual allowances, at June 30, 2012 to 23% of patient accounts receivable, net of contractual allowances, as of June 30, 2013. During 2013, MSHA began recording contractual allowances at time-of-billing for three additional payers, two of whom are MSHA's largest commercial payers. Previously, MSHA had recorded an allowance for bad debt for those three payers in addition to an estimated allowance for contractual adjustments. As a result of a more accurate methodology for recording contractual allowances for those three payers, MSHA was able to decrease its allowance for bad debts by a minimal amount. The provision for bad debts associated with the Alliance's ancillary service lines are not significant.

NOTE I--THIRD-PARTY REIMBURSEMENT

The Alliance renders services to patients under contractual arrangements with Medicare, Medicaid, TennCare, Blue Cross and various other commercial payers. The Medicare program pays for inpatient services on a prospective basis. Payments are based upon diagnosis related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. The Alliance also receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid and other low income patients. Most Medicare outpatient services are reimbursed on a prospectively determined payment methodology. The Medicare program also reimburses certain other services on the basis of reasonable cost, subject to various prescribed limitations and reductions.

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE I--THIRD-PARTY REIMBURSEMENT - Continued

Reimbursement under the State of Tennessee's Medicaid waiver program (TennCare) for inpatient and outpatient services is administered by various managed care organizations (MCOs) and is based on diagnosis related group assignments, a negotiated per diem or fee schedule basis. The Alliance also receives additional supplemental payments from the State of Tennessee. These supplemental payments recognized totaled \$8,455 and \$11,300 for the years ended June 30, 2013 and 2012, respectively. Such payments are not guaranteed in future periods.

The Virginia Medicaid program reimbursement for inpatient hospital services is based on a prospective payment system using both a per case and per diem methodology. Additional payments are made for the allowable costs of capital. Payments for outpatient services are based on Medicare cost reimbursement principles and settled through the filing of an annual Medicaid cost report.

Amounts earned under the contractual agreements with the Medicare and Medicaid programs are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. During 2013, the State of Virginia outsourced its Medicaid program to six managed care organizations. ISHN provides the provider network for Southwest Virginia to five Virginia Medicaid managed care organizations; two of which are on an exclusive basis. ISHN is not at-risk under these contracts.

Activity with respect to audits and reviews of the governmental programs in the healthcare industry has increased and is expected to increase in the future. No additional specific reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts, if any. Management believes that any adjustments from these increased audits and reviews will not have a material adverse impact on the consolidated financial statements. However, due to uncertainties in the estimation, it is at least reasonably possible that management's estimate will change in 2014, although the amount of any change cannot be estimated. The impact of final settlements of cost reports or changes in estimates increased net patient service revenue by \$1,328 in 2013 and decreased net patient service revenue by \$1,556 in 2012.

Participation in the Medicare program subjects the Alliance to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the program. Management believes that adequate provision has been made for any adjustments, fines or penalties which may result from final settlements or violations of other rules or regulations. Management has represented that the Alliance is in substantial compliance with these rules and regulations as of June 30, 2013.

The Alliance has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and employer groups. The basis

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE I--THIRD-PARTY REIMBURSEMENT - Continued

for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

NOTE J-EMPLOYEE BENEFIT PLANS

The Alliance sponsors a retirement plan (the Plan) which covers substantially all employees. The Plan is a defined contribution plan which consists principally of employer-funded contributions. During 2013 and 2012, the Alliance made contributions to the Plan under a stratified system, whereby the Alliance's contribution percentage is based on each employee's years of service. Employees of certain other subsidiaries are covered by other plans, although such plans are not significant. The total expense related to defined contribution plans for the years ended June 30, 2013 and 2012 was \$16,121 and \$15,072, respectively.

NCH maintains a defined benefit pension plan and a post-retirement employee benefit plan. The accrued unfunded pension liability was \$3,028 and \$2,560, and the accrued unfunded post-retirement liability was \$4,943 and \$4,554 at June 30, 2013 and 2012, respectively.

The Alliance sponsors a secured executive benefit program (SEBP) for certain key executives. Contributions to the plan by the Alliance are based on an annual amount of funding necessary to produce a target benefit for the participants at their retirement date, although the Alliance does not guarantee any level of benefit will be achieved. The Alliance contributed \$1,020 and \$1,734 to the plan during 2013 and 2012, respectively. Other assets at June 30, 2013 and 2012 include \$10,721 and \$9,675, respectively, related to the Alliance's portion of the benefits which are recoverable upon the death of the participant. In addition, the Alliance sponsors a Section 457(f) plan for certain key executives. The Alliance contributed \$294 and \$452 to the Section 457(f) plan during 2013 and 2012, respectively.

NOTE K-CONCENTRATION OF RISK

The Alliance has locations primarily in upper East Tennessee and Southwest Virginia which is considered a geographic concentration. The Alliance grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. Net patient service revenue from Washington County, Tennessee operations were approximately 51% and 51% of total net patient service revenue for 2013 and 2012, respectively.

The mix of receivables from patients and third-party payers based on charges at established rates is as follows as of June 30:

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE K-CONCENTRATION OF RISK - Continued

| 2 | 2013 | 2012 |
|-----|------|-------------------------------|
| | 38% | 36% |
| | 16% | 14% |
| ∂€\ | 28% | 26% |
| | 9% | 13% |
| | 9% | 11% |
| - | 100% | 100% |
| | æ | 38% 16% 28% 9% 9% |

Approximately 88% and 94% of the consolidated total revenue, gains and support were related to the provision of healthcare services during 2013 and 2012, respectively. Admitting physicians are primarily practitioners in the regional area.

Two of the Alliance's Virginia hospitals' employees are covered under collective bargaining agreements which extend through February 2014 and January 2015, respectively.

The Hospital maintains bank accounts at various financial institutions covered by the Federal Deposit Insurance Corporation (FDIC). At times throughout the year, the Alliance may maintain bank account balances in excess of the FDIC insured limit. Management believes the credit risk associated with these deposits is not significant.

The Alliance routinely invests in investment vehicles as listed in Note C. The Alliance's investment portfolio is managed by outside investment management companies. Investments in corporate and foreign bonds, municipal obligations, money market funds, equities and other vehicles that are held by safekeeping agents are not insured or guaranteed by the U.S. government.

NOTE L-INCOME TAXES

BRMM and its subsidiaries file a consolidated federal tax return and separate state tax returns. As of June 30, 2013 and 2012, BRMM and its subsidiaries had net operating loss carryforwards for consolidated federal purposes of \$33,620 and \$35,968, respectively, related to operating loss carryforwards which expire through 2031. At June 30, 2013 and 2012, BRMM had state net operating loss carryforwards of \$70,347 and \$69,403, respectively, which expire through 2027. The net operating loss carryforwards may be offset against future taxable income to the extent permitted by the Internal Revenue Code and Tennessee Code Annotated.

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE L--INCOME TAXES - Continued

At June 30, 2013 and 2012, SWCH had federal and state net operating loss carryforwards of \$5,906 and \$5,614, respectively, which expire through 2032. The net operating loss carryforwards may be off-set against future taxable income to the extent permitted by the Internal Revenue Code and tax codes of the Commonwealth of Virginia.

Net deferred tax assets related to these carryforwards and other deferred tax assets have been substantially offset through valuation allowances equal to these amounts. Income taxes paid relate primarily to state taxes for certain subsidiaries and federal alternative minimum tax.

NOTE M--RELATED PARTY TRANSACTIONS

The Alliance enters into transactions with entities affiliated with certain members of the Board of Directors including transactions to construct Alliance facilities and provide professional services to the Alliance. Board members refrain from discussion and abstain from voting on transactions with entities with which they are related.

NOTE N-OTHER COMMITMENTS AND CONTINGENCIES

Construction in Progress: Construction in progress at June 30, 2013 represents costs incurred related to various hospital and medical office building facility renovations and additions and information technology infrastructure. The Alliance has outstanding contracts and other commitments related to the completion of these projects, and the cost to complete these projects is estimated to be approximately \$39,110 at June 30, 2013. The Alliance does not expect any significant costs to be incurred for infrastructure improvements to assets held for resale.

Physician Contracts: BRMM employs physicians to provide services to BRMM's physician practices through employment agreements which provide annual compensation, plus incentives based upon specified productivity levels. These contracts have various terms.

In addition, the Alliance has entered into contractual relationships with non-employed physicians to provide services in Upper East Tennessee and Southwest Virginia. These contracts guarantee certain base payments and allowable expenses and have terms of varying lengths. Amounts drawn and outstanding under each agreement are treated as a loan bearing interest at various rates and are subject to repayment over a specified period. The physician notes may also be amortized by virtue of the physician's continued practice in the specified community during the repayment period. A net receivable of \$884 and \$1,436 related to these agreements is included in the accompanying Consolidated Balance Sheets at June 30, 2013 and 2012, respectively.

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE N-OTHER COMMITMENTS AND CONTINGENCIES - Continued

Employee Scholarships: The Alliance offers scholarships to certain individuals which require that the recipients return to the Alliance to work for a specified period of time after they complete their degree. Amounts due are then forgiven over a specific period of time as provided in the individual contracts. If the recipient does not return and work the required period of time, the funds disbursed on their behalf become due immediately and interest is charged until the funds are repaid. Other receivables at June 30, 2013 and 2012 include \$9,021 and \$8,005, respectively, related to students in school, graduates working at the Alliance and amounts due from others who are no longer in the scholarship program, net of an estimated allowance.

Operating Leases and Maintenance Contracts: Total lease expense for the years ended June 30, 2013 and 2012 was \$8,739 and \$8,823, respectively. Future minimum lease payments for each of the next five years and in the aggregate for the Alliance's noncancellable operating leases with remaining lease terms in excess of one year are as follows:

| | Year Ending June 30, | |
|---|----------------------|--------------|
| | 2014 | \$ 5,165 |
| d | 2015 | 6,044 |
| | 2016 | 4,491 |
| | 2017 | 2,459 |
| | 2018 | 1,848 |
| | Thereafter | 6,297 |
| | | \$ 26,304 |

Asset Retirement Obligation: The Alliance has identified asbestos in certain facilities and is required by law to dispose of it in a special manner if the facility undergoes major renovations or is demolished; otherwise, the Alliance is not required to remove the asbestos from the facility. The Alliance has complied with regulations by treating the asbestos so that it presents no known immediate or future safety concerns. An asset retirement obligation has been established to the extent that sufficient information exists upon which to estimate the liability.

Other: The Alliance is a party to various transactions and agreements in the normal course of business, which include purchase and re-purchase agreements, put arrangements and other commitments, which may bind the Alliance to undertake additional transactions or activities in the future. In addition, the Alliance has agreed to guarantee a portion of the outstanding indebtedness of a joint venture. Management estimates that the fair value of the guarantee of this debt is immaterial as of June 30, 2013.

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE N-OTHER COMMITMENTS AND CONTINGENCIES - Continued

Healthcare Industry: Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

In March 2010, Congress adopted comprehensive health care insurance legislation, Patient Care Protection and Affordable Care Act and Health Care and Education Reconciliation Act. The legislation, among other matters, is designated to expand access to coverage to substantively all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing TennCare and Medicaid coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

NOTE O-RENTAL INCOME UNDER OPERATING LEASES

The Alliance leases rental properties to third parties, most of whom are physician practices, for various terms, generally five years. The following is a schedule by year and in the aggregate of minimum future rental income due under noncancellable operating leases at June 30, 2013:

| Year Ending June 30, | | 10 T | |
|------------------------------|----|------|-------|
| 2014 | | \$ | 1,779 |
| 2015 | £5 | | 1,487 |
| 2016 | | | 727 |
| 2017 | | | 379 |
| 2018 | | | 248 |
| Thereafter | | | 225 |
| Total minimum future rentals | | \$ | 4,845 |

NOTE P-FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments has been estimated by the Alliance using available market information as of June 30, 2013 and 2012, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Alliance could realize in a current market exchange. The carrying value of substantially all financial instruments approximates fair value due to the nature or term of the instruments, except as described below.

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE P-FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Investment in Joint Ventures: It is not practical to estimate the fair market value of the investments in joint ventures.

Other Long-Term Liabilities: Estimates of reported and unreported professional liability claims, pension and post-retirement liabilities are discounted to approximate their estimated fair value. It is not practical to estimate the fair market value of other long-term liabilities due to uncertainty of when these amounts may be paid. Other long-term liabilities are not discounted.

Long-Term Debt: The fair value of long-term debt is estimated based upon quotes obtained from brokers for bonds and discounted future cash flows using current market rates for other debt. For long-term debt with variable interest rates, the carrying value approximates fair value.

The estimated fair value of the Alliance's financial instruments that have carrying values different from fair value is as follows at June 30:

| 8 " . | | 20 | 13 | | 20 | | |
|---------------------------------------|----|-------------------|----|-----------------------|-------------------|----|-------------------------|
| | (| Carrying Value | _ | Stimated air Value | Carrying Value | _ | Estimated Fair Value |
| FINANCIAL LIABILITIES: Long-term debt | \$ | 1,124,765 | \$ | 1,167,846 | \$ 1,080,575 | \$ | 1,150,201 |

NOTE Q-FAIR VALUE MEASUREMENT

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.
- Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The Alliance's Level 2 investments are valued primarily using the market valuation approach.

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE Q--FAIR VALUE MEASUREMENT - Continued

 Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Alliance's own assumptions.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Alliance's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table sets forth, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis and long-term debt as disclosed at fair value as of June 30, 2013 and 2012:

| Tot | | Total | ¥ | Level 1 | Level 2 | Level 3 |
|---|----|-------------|----|-----------------|-----------------|-------------------|
| June 30, 2013 | | | | | | |
| Cash, cash equivalents and money market funds | \$ | 66,075 | \$ | 66,075 | \$ - | \$ - |
| U.S. Government securities | | 25,905 | | 25,905 | - | - |
| U.S. Agency securities | | 45,997 | | 45,997 | - | - |
| Corporate and foreign bonds | | 179,880 | | - | 179,880 | 441 |
| Municipal obligations | | 17,749 | | - | 1 7 ,749 | - |
| Preferred and asset backed securities | | 3,491 | | - | 3,491 | - |
| U.S. equity securities | | 10,944 | | 10, 94 4 | - | l Leady |
| Mutual funds | | 186,028 | | 125,479 | 60,548 | |
| Other | _ | 37,353 | | <u> </u> | 9 | 37,353 |
| Total assets | \$ | 573,422 | \$ | 274,400 | \$ 261,668 | \$ 37,353 |
| Fair value of derivative agreements - Note D | \$ | (8,185) | \$ | | \$ | \$ (8,185) |
| Fair value of long-term debt | \$ | (1,167,846) | \$ | | \$ | \$ (1,167,846) |

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE Q-FAIR VALUE MEASUREMENT - Continued

| _ | Total | | Level 1 Level 2 | | | Level 3 | | |
|----|----------------|--|--|--|-------------------------------|--|---|--|
| | | | | | | | | |
| \$ | 85,017 | \$ | 85,017 | \$ | - | \$ | - | |
| | 15,693 | | 15,693 | | - | | - | |
| | 62,437 | | 62,437 | | → | | - | |
| | 52,581 | | ¥. | | 52,581 | | 2 | |
| | 961 | | # | | 961 | | - | |
| | 11,183 | | - | | 11,183 | | * | |
| | 28,344 | | 28,344 | | • | | - | |
| | 141,968 | | 97,600 | | 44,368 | | - | |
| | 34,880 | | ¥ | | 1 4 | | 34,880 | |
| \$ | 433,064 | \$ | 289,091 | \$ | 109,093 | \$ | 34,880 | |
| \$ | (19,381) | \$ | | \$ | | \$ | (19,381) | |
| \$ | (1,150,201) | \$ | | \$ | _ | \$ | (1,150,201) | |
| | \$ \$ \$ | \$ 85,017 15,693 62,437 52,581 961 11,183 28,344 141,968 34,880 \$ 433,064 \$ (19,381) | \$ 85,017 \$ 15,693 62,437 52,581 961 11,183 28,344 141,968 34,880 | \$ 85,017 \$ 85,017 15,693 15,693 62,437 62,437 52,581 - 961 - 11,183 - 28,344 28,344 141,968 97,600 34,880 - \$ 433,064 \$ 289,091 \$ (19,381) \$ - | \$ 85,017 \$ 85,017 \$ 15,693 | \$ 85,017 \$ 85,017 \$ - 15,693 15,693 - 62,437 62,437 - 52,581 - 52,581 961 - 961 11,183 - 11,183 28,344 28,344 - 141,968 97,600 44,368 34,880 \$ 433,064 \$ 289,091 \$ 109,093 \$ (19,381) \$ - \$ - | \$ 85,017 \$ 85,017 \$ - \$ 15,693 15,693 - 62,437 62,437 - 52,581 - 52,581 961 - 961 11,183 - 11,183 28,344 28,344 - 141,968 97,600 44,368 34,880 \$ 433,064 \$ 289,091 \$ 109,093 \$ \$ (19,381) \$ - \$ - \$ | |

The valuation of the Alliance's derivative agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses certain observable market-based inputs. The fair values of interest rate agreements are determined by netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates and the underlying notional amount. The Alliance also incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty's nonperformance or credit risk in the fair value measurements. The CVA on the Alliance's interest rate swap agreements at June 30, 2013 and 2012 resulted in a decrease in the fair value of the related liability of \$3,080 and \$5,726, respectively.

A certain portion of the inputs used to value its interest rate swap agreements, including the forward interest rate curves and market perceptions of the Alliance's credit risk used in the CVAs, are unobservable inputs available to a market participant. As a result, the Alliance has determined that the interest rate swap valuations are classified in Level 3 of the fair value hierarchy.

The following tables provide a summary of changes in the fair value of the Alliance's Level 3 financial assets and liabilities during the fiscal years ended June 30, 2013 and 2012:

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE Q-FAIR VALUE MEASUREMENT - Continued

| | | rading curitles | Derivatives, Net | | |
|---|---|---------------------------------------|---------------------|---------------------------------------|--|
| Total unrealized/realized gains in the Performance Indicator, net Net investment income Purchases Settlements Distributions | \$ 32,718 1,466 1,221 5,107 - (5,632 | | \$ | (110,732) (6,198) 515 97,034 | |
| June 30, 2012 | 7 | 34,880 | | (19,381) | |
| Net investment income Purchases Settlements | 2/ | 1,614 1,360 807 - (1,308) | | 457 399 10,340 | |
| June 30, 2013 | \$ | 37,353 | \$ | (8,185) | |

There were no changes in valuation techniques in 2013 or 2012.

NOTE R--OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

The Alliance does not present expense information by functional classification because its resources and activities are primarily related to providing healthcare services. Further, since the Alliance receives substantially all of its resources from providing healthcare services in a manner similar to business enterprises, other indicators contained in these consolidated financial statements are considered important in evaluating how well management has discharged their stewardship responsibilities.

NOTE S--SUBSEQUENT EVENTS

In November 2013, Unicoi County Memorial Hospital (UCMH), a 48 bed acute care hospital located in Erwin, Tennessee, became a member of the Alliance. UCMH has approximately 250 employees and offers emergency, surgical, and home health services. Nursing home services are provided in a 46 licensed bed long term care facility. The Alliance will fund the acquisition from cash flow and intends to construct a new acute care hospital in Erwin, Tennessee. After consideration of the revenues and expenses expected from operation of the facility, management of the Alliance does not expect this acquisition to have a material effect on the Alliance.

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended 2013 and 2012

NOTE S-SUBSEQUENT EVENTS - Continued

In July 2013, the Alliance issued \$16,235 (Series 2013A) tax-exempt variable rate Hospital Revenue Bonds and \$99,680 (Series 2013B) variable rate Taxable Hospital Refunding Revenue Bonds through The Health and Educational Facilities Board of the City of Johnson City, Tennessee. The proceeds from the Series 2013A Bonds will be used to finance or refinance capital improvements and equipment acquisitions and pay issuance costs related to these Bonds. The proceeds from the Series 2013B Bonds will be used to refund \$97,915 of the Series 2007B-2 Bonds and to pay issuance costs associated with these Bonds. Contemporaneously with the issuance of the Series 2013A and Series 2013B Bonds, the Alliance refunded the Series 2008A, Series 2008B, Series 2011C, Series 2011D, Series 2012B and Series 2012C through private placements with financial institutions.

At June 30, 2013 and 2012, the Alliance owned membership units in Premier, Inc. Subsequent to yearend Premier, as part of a reorganization, converted to a publically traded entity. As part of its reorganization, certain of the Alliance's membership units were redeemed for approximately \$3,000 and a gain was recognized on the sale of these units. Unredeemed units continue to be held by the Alliance and may be effectively exchanged for Class A common stock of Premier ratably over a seven year period. The unredeemed membership units may be exchanged for up to 723 thousand Class A shares.

Other Information

Schedule of Expenditures of Federal and State Awards

Year Ended June 30, 2013

| CFDA Number | Award Number (Award Allocation) | Program Name (Program Period) | Grander | Puzz-Through Granter Agency | Receivable (Payable) Balance et July 1, 2812 | Receipts | Amounts Remod by Expanditures | Amounts Released or Betweed to Granter | Receivable (Papable) Balance at Jane 30, 2013 |
|----------------|-------------------------------------|---|---|----------------------------------|--|-----------|-------------------------------|--|---|
| | AND STATE AWARDS: | 4 | | 27/4 | | d | | | |
| 10.776 | 48-046-620476282 (100% Federal) | Rural Housing Service Grant (None) | U.S. Department of Agriculture | N/A | s ==== | \$ 46,600 | \$ 46,600 | \$ - | \$ w |
| | | 721 | Total U.S | Department of Agriculture | * | 46,600 | 46,600 | (⊕ | 50 |
| 93.211 | 5H2ATT16637-03-00 (100% Federal) | Tolohealth Great Network Program (9/1/09 - 8/31/12) | U.S. Department of Health and Human Services | N/A | 41,185 | 159,614 | 118,429 | | * |
| 93,301 | 10-557-XX (100% Federal) | Small Rural Hospital Improvement Program (9/1/09 - 8/31/10) | U.S. Department of Health and Human Services | Virginia Department of Health | (13,515) | = | . 5 | • | (13,515) |
| 93,301 | 11-557-XX (100% Federal) | Small Rural Hospital Improvement Program (9/1/10 - 8/31/11) | U.S. Department of Health and Human Services | Virginia Department of Health | (14,884) | 3 | | | (14,884) |
| 93,30L | GR-12-35362-00 (100% Federal) | Small Rural Hospital Improvement Program (7/1/11 - 8/31/11) | U.S. Department of Health and Human Services | Temessee Department of Health | (2,791) | ě | · · | | (2,791) |
| 93.301 | 12-557-08 (100% Federal) | Small Rural Hospital Improvement Program (9/1/11 - 8/31/12) | U.S. Department of Health and Human Services | Virginia Department of Health | (750) | | 750 | | · . |
| 93.301 | 12-557-18 (100% Federal) | Small Rural Hospital Improvement Program (7/1/11 - 6/30/12) | U.S. Department of Health and Human Services | Virginia Department of Health | 9 | 7,504 | 104 | | (7,504) |
| 93.301 | 13-557-XX (100% Federal) | Small Rural Hospital Improvement Program (9/1/12 - 8/31/13) | U.S. Department of Realth and Human Services | Virginia Department of Health | ** | 14,228 | 8,353 | | e (5,875) |
| 93.301 | None (100% Federal) | Small Rural Hospital Improvement Program (9/1/11 - 8/31/12) | U.S. Department of Health and Human Services | Temessee Department of Health | 8 | 8,500 | 8,500 | - 3 | in es |

Schedule of Expenditures of Federal and State Awards - Continued

Year Ended June 30, 2013

| CFDA Number | Award Namber (Award Allocation) | Program Name (Program Period) | Grantor | Pass-Through Granter Agency | Receivable (Payable) Bulance at July 1, 2012 | Receipts | Amounts Earned by Expenditures | Amounts Released or Returned to Grantor | Receivable (Papable) Balance at June 30, 2013 |
|----------------|--|---|---|---|--|-----------|----------------------------------|--|---|
| 93.778 | GR-11-31755-00 (50% Federal) (50% State) | High Risk Perinatal Program ^a (7/1/10 - 6/30/13) | U.S. Department of Health and Human Services | Tennemee Department of Finance and Administration | 205,766 | 493,995 | 381,500 | .3 | 93,271 |
| 93.889 | GR-1236-XXX (100% Federal) | Hospital Preparedness Program (7/1/11 - 9/30/12) | U.S. Department of Health and Human Services · | Tennesses Department of Health | (151) | - | 151 | H 36 | |
| 93.889 | GR-13-XXXXX (100% Pedcad) | Hospital Proparednesa Program (7/1/12 - 6/30/13) | U.S. Department of Health and Human Services | Temestee Department of Health | | 200,000 | 123,449 | | (76,551) |
| 93,889 | None (100% Federal) | ASPR Conference Funding (7/1/12 - 6/30/13) | U.S. Department of Health and Human Services | Virginia Department of Health | (2) | 3,149 | 3,114 | | (35) |
| 93.889 | None (100% Federal) | National Women's Health Week (2/4/11 - 6/29/12) | U.S. Department of Health and Human Services | John Snow, Inc. | (1,133) | * | 1,020 | Ť | (113) |
| 93.889 | None (100% Federal) | Healthoure Emergency Management (7/1/12 - 6/30/13) | U.S. Department of Health and Human Services | Virginia Department of Health | | <u> </u> | 2,538 | 92 | 2,538 |
| | | | Total U.S. Department of | Health and Human Services | 213,727 | 886,990 | 647,804 | i.e | (25,459) |
| N/A | None (100% State) | Get With Guidelines Stroke Program (None) | Virginia Department of Health | N/A | | L,854 | 5,634 | 14 | 3,780 |
| N/A | Vazious (100% State) | Inpatient Psychiatric Treatment of Uninsured Committed Patients (7/1/11 - 6/30/14) | Department of Mental Health and Developmental Disabilities | N/A | 331,280 | 2,417,931 | 2,509,335 | 4 | 422,684 |

Schedule of Expenditures of Federal and State Awards - Continued

Year Ended June 30, 2013

| CFDA Number | Award Number (Award Allocation) | Program Nama (Program Period) | Grundoir | Pess-Through Granter Agency | Receivable (Payable) Balance at July 1, 2012 | Receipts | Amounts Harned by Rependitures | Amounts Released or Returned to Granter | Receivable (Psymble) Balance at June 30, 2013 |
|----------------|------------------------------------|--|---|--------------------------------|--|--------------|----------------------------------|---|---|
| N/A | None (100% State) | Medicare Rural Hospital Flexibility Grant (None) | Tennessee Department of Health | Temessee Hospital Association | * | 4,000 | ti .e. | | (4,000) |
| N/A | CHR-13-34105-00 (100% State) | Project Diabetes Initiative Services (8/15/12 - 6/30/13) | Termesace Department of Health | N/A | w _i | 2,169 | 2,229 | | 60 |
| N/A | Norm: (100% State) | Resential Services Dispensary of Hopo (7/1/11 - 2/28/14) | Termessee Housing Development Agency | City of Johnson City | 1,875 | 2,500 | 1,250 | | 625 |
| | | | TOTAL FEDERA | L AND STATE AWARDS | \$ 546,882 | \$ 3,362,044 | \$ 3,212,852 | \$ | \$ 397,690 |

^{*}Denotes major program

Notes to Schedule of Expenditures of Federal and State Awards

Year Ended June 30, 2013

NOTE A-BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the federal and state award activity of the Alliance and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State of Tennessee Comptroller of the Treasury. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

NOTE B--FEDERAL AWARDS EXPENDED

The accompanying schedule of expenditures of federal and state awards includes federal and state award activity organized by federal program. State pass-through funding is included as part of the total program activity, with state allocation percentages disclosed. Total federal awards expended were as follows for the year ending June 30, 2013:

| Telehealth Grant Network Program | \$ 118,429 |
|--|---------------|
| Small Rural Hospital Improvement Program | 17,603 |
| High Risk Perinatal Program | 190,750 |
| Hospital Preparedness Program | 129,252 |
| Rural Housing Service Grant | 46,600 |
| National Women's Health Week | 1,020 |
| Total federal awards expended | \$ 503,654 |

NOTE C-CONTINGENCIES

The Alliance's federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the Alliance's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Alliance expects such amounts, if any, to be immaterial.

Schedule of Prior Audit Findings

Year Ended June 30, 2013

There were no prior audit findings.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of Mountain States Health Alliance:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the Standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the consolidated financial statements of Mountain States Health Alliance and its subsidiaries (the Alliance) which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related statements of operations, changes in net assets and cash flows for the years ended June 30, 2013 and 2012, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audits of the consolidated financial statements, we considered the Alliance's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alliance's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Alliance's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alliance's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the Alliance's consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we have reported to management of the Alliance in a separate letter dated December 16, 2013.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Alliance's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Alliance's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Penning Spally: anust PC

Knoxville, Tennessee December 16, 2013



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of Mountain States Health Alliance:

Report on Compliance for Each Major Federal Program

We have audited Mountain States Health Alliance and its subsidiaries' (the Alliance) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the Alliance's major federal program for the year ended June 30, 2013. The Alliance's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Alliance's major federal program. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the compliance audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Alliance's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Alliance's compliance.

Opinion on the Major Federal Program

In our opinion, Mountain States Health Alliance and its subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of the Alliance is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Alliance's internal control over compliance with types of requirements that could have a direct and material effect on the major federal program to determine auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Alliance's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Paring Youly! annats R

Knoxville, Tennessee December 16, 2013

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

- 1. The auditor's report expresses an unmodified opinion on the consolidated financial statements of Mountain States Health Alliance.
- 2. No significant deficiencies relating to the audit of the consolidated financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. In addition, we noted no findings that are required to be reported under Government Auditing Standards.
- 3. No instances of noncompliance material to the consolidated financial statements of Mountain States Health Alliance which would be required to be reported in accordance with Government Auditing Standards were disclosed during the audit.

Federal Awards

- 4. No significant deficiencies, findings or questioned costs relating to the audit of the major federal award program are reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance Required By OMB Circular A-133 or in this schedule.
- 5. The auditor's report on compliance for the major federal award program for Mountain States Health Alliance expresses an unmodified opinion on its major federal program.
- 6. No audit findings relative to the major federal award program for Mountain States Health Alliance are reported in this schedule in accordance with Section 510(a) of OMB Circular A-133.
- 7. The program tested as a major program is as follows:

Name CFDA Number
High Risk Perinatal Program 93.778

- 8. The threshold for distinguishing Types A and B programs was \$300,000.
- 9. Mountain States Health Alliance qualified as a low-risk auditee.

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2013

Section II - Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the consolidated financial statements for which Government Auditing Standards require reporting in a Circular A-133 audit.

Not applicable, no financial statement findings.

Section III - Federal Awards Findings

This section identifies the audit findings required to be reported by Section 510(a) of Circular A-133 (for example, significant deficiencies, material weaknesses, and material instances of noncompliance, and any related questioned costs), as well as any abuse findings involving federal awards that is material to a major program.

Not applicable, no federal awards findings or questioned costs.

ATTACHMENT C, CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE, 7(C)

Current Licensure from Tennessee Department of Health

- 1. Johnson City Medical Center
- 2. Princeton Transitional Care

Marin the Liemann Beating Care Janinus

State of series Connessee

DEPARTMENT OF HEALTH

This is to collepy, that a bones is besely granted by the State. Department of Fleidth to

JOHNSON CITY MEDICAL CENTER

400 NORTH STATE OF FRANKLIN ROAD, JOHNSON CITY

This license shall whive

to the promisers of Glapler 11, Formasseo Colo Amedaled. This liens shall not be assignable or transferable,

and shell be subject to coordian at any time by the Plate Department of Halls, be failuse to comply with bla

law of the State of Tennesses on the rules and regulations of the State Department of Health issued thereunder

In Olinew Obserch, we have becamic set our hand and seal of the State this TITH day of WAY

In the Distinct Category (as) 4: PEDIATRIC GENERAL HOSPITAL PEDIATRIC GENERAL HOSPITAL PROMA CENTER LEVEL 1

Johnson City Medical Center

Johnson City, TN

has been Accredited by



The Joint Commission

Which has surveyed this organization and found it to meet the requirements for the

Hospital Accreditation Program

April 6, 2012

Accreditation is customarily valid for up to 36 months.

Isabel V. Hoverman, MD, MACP

Chair, Board of Commissioners

Organization ID #: 7844

Print/Reprint Date: 06/26/12

Mark R. Chassin, MD, FACP, MPP, MPH

President

The Joint Commission is an independent, not-for-profit, national body that oversees the safety and quality of health care and other services provided in accredited organizations. Information about accredited organizations may be provided directly to The Joint Commission at 1-800-994-6610. Information regarding accreditation and the accreditation performance of individual organizations can be obtained through The Joint Commission's web site at www.jointcommission.org.











This reproduction of the original accreditation certificate has been issued for use in regulatory/payer agency verification of accreditation by The Joint Commission. Please consult Quality Check on The Joint Commission's website to confirm the organization's current accreditation status and for a listing of the organization's locations of care.

Woard for Aicensing Health Care Facilities

State of American Tennessee

License No. 0000000337

No. Beds

DEPARTMENT OF HEALTH

This is to certify, that a license is hereby granted by the State Department of Health to

| | MOUNTAIN STA | MOUNTAIN STATES HEALTH ALLIANCE, INC. | - to conduct |
|-------------|----------------------------------|---------------------------------------|--------------|
| md maintain | md maintain a Hussing Home | PRINCETON TRANSITIONAL CARE | |
| Pocated at_ | 2511 WESLEY STREET, JOHNSON CITY | JOHNSON CITY | |
| County of | WASHINGTON | Gennessee. | |

laws of the State of Tennessee or the rules and requiations of the State Department 2015 and is subject to the provisions of Chapter 11, Tennessee Code Frnotated. This license shall not be assignable or transferable, and shall be subject to revocation at any time by the State Department of Health, for failure to compby with the SEPTEMBER 29 This license shall expire



In Vitness Mercef, we have hereunto set our hand and seal of the State

of Health issued thereunder.

SEPTEMBER day of DIRECTOR, DIVISION OF HEAPTH CARE FACILITIES

ATTACHMENT C, CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE, 7(D)

Summary Statement of Deficiencies and (Approved) Provider's Plan of Correction



STATE OF TENNESSEE

DEPARTMENT OF HEALTH

Office of Health Licensure and Regulation East Tennessee Region 7175 Strawberry Plains Pike, Ste 103 Knoxville TN 37914

Phone: 865-594-9396 Fax: 865-594-2168

August 11, 2014

Mr. David Nicely, Administrator Johnson City Medical Center 400 N State of Franklin Road Johnson City TN 37604

Provider Number: 44-0063

Dear Mr. Nicely:

Enclosed is the Statement of Deficiencies developed as the result of the complaint investigation conducted at the Johnson City Medical Center on July 28-August 4, 2014. You are requested to submit a Plan of Correction by August 21, 2014 with acceptable time frames for correction of the cited deficiencies. Corrective action must be achieved prior to September 18, 2014. Please notify this office when these deficiencies are corrected.

Please be advised that under the disclosure of survey information provisions, the Statement of Deficiencies will be available to the public.

Please submit the Plan of Correction (POC), by August 21, 2014:

State of Tennessee Department of Health Health Care Facilities 7175 Strawberry Plains Pike, Ste 103 Knoxville TN 37914

Your POC must contain the following:

- What corrective action(s) will be accomplished for those residents/patients found to have been affected by the deficient practice.
- How you will identify other residents/patients having the potential to be affected by the same deficient practice and what corrective action will be taken;
- What measures will be put into place or what systemic changes you will make to ensure that the deficient practice does not recur; and,

Mr. David Nicely August 11, 2014 Page 2

• How the corrective action(s) will be monitored and the person(s) responsible for monitoring to ensure the deficient practice will not recur; i.e., what quality assurance program will be put into place.

Please put your Plan of Correction on the Statement of Deficiencies form in the "Provider's Plan of Correction" column. In the "Completion Date" column of the form, list the date corrective actions have been or will be completed. Please make sure the administrator's signature and date are on the bottom line of the Statement of Deficiencies/Plan of Correction State Form.

Please be advised that under the disclosure of survey information provisions, the Statement of Deficiencies will be available to the public.

If you have any questions, please contact this office at (865) 594-9396 or by facsimile at (865) 594-2168.

Sincerely,

Karen B. Kirby, RN Regional Administrator

East TN Health Care Facilities

KK: kg

Enclosure: CMS-2567

TN00033301, TN0003328, TN00033661, TN00033661 and TN00033804



August 21, 2014

Karen Kirby State of Tennessee Department of Health Health Care Facilities 7175 Strawberry Plains Pike, Ste 103 Knoxville, TN 37914

Dear Ms. Kirby,

Enclosed is the Plan of Correction for Johnson City Medical Center addressing the findings from the complaint investigation conducted on July 28 - August 4, 2014. We have faxed the attached document to 865-594-2168 on August 21, 2014 to comply with the due date noted in your July 11, 2014 letter.

If you have any questions, please contact me at 423-431-6936.

Sincerely,

Shelley Rose

Risk Manager

Johnson City Medical Center

Sully Rosa

Enclosure

PRINTED: 08/11/2014 FORM APPROVED OMB NO. 0938-0391

| | OF DEFICIENCIES OF CORRECTION | (X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: | (X2) MULTIPLE CONSTRUCTION A. BUILDING | | | (X3) DATE SURVEY COMPLETED | |
|--------------------------|--|---|--|-----|---|-------------------------------|----------------------------|
| | , 1311 | | A, BUILL | | | С | |
| | | 440063 | B. WING | | | 08/04/2014 | |
| NAME OF I | PROVIDER OR SUPPLIER | | | | TREET ADDRESS, CITY, STATE, ZIP CODE | | |
| JOHNSO | N CITY MEDICAL CE | NTER | | | 00 N STATE OF FRANKLIN RD OHNSON CITY, TN 37604 | | |
| | | | | - 1 | PROVIDER'S PLAN OF CORRECTION | N | (X5) |
| (X4) ID PREFIX TAG | (EACH DEFICIENCY | TEMENT OF DEFICIENCIES MUST BE PRECEDED BY FULL SC IDENTIFYING INFORMATION) | PREFI TAG | | (EACH CORRECTIVE ACTION SHOULD CROSS-REFERENCED TO THE APPROP DEFICIENCY) | BE | (X5) COMPLETION DATE |
| A 000 | INITIAL COMMENT | rs | A | 000 | Action Plan for A 749 | | |
| | | | | | The infection control officer or | | |
| | During complaint in | nvestigation #33661, #33328, nd #33753 conducted on July | | | officers must develop a system for | r | |
| | 28, 2014, through J | luly 30, 2014, at Johnson City | | | identifying, reporting, investigatin | g, | |
| | Medical Center, no | deficiencies were cited in | | | and controlling infections and | | |
| | relation to complain #33753. | nts #33328, #33301, and | | | communicable diseases of patient | S | |
| A 749 | | CTION CONTROL PROGRAM | A | 749 | and personnel. | | |
| | The infection contro | ol officer or officers must | | | The STANDARD is not met as | | |
| | develop a system for identifying, reporting, investigating, and controlling infections and | | | | evidenced by: Based on medical | | |
| | | eases of patients and | | - 1 | record review, observation, review | W | |
| | personnel. | | | | of facility policy, and interview th | e | |
| | | | | | facility failed to follow infection | | |
| | This STANDARD is | s not met as evidenced by: | | | control precautions during urinar | У | |
| | Based on medical | record review, observation, | | | catheter care for one patient of fi | | |
| | falled to follow infed | licy, and interview, the facility ction control precautions | | | patients reviewed. | | |
| | during urinary cathe five patients review | eter care for one patient (#1) of | | | Plan of Correction | | - |
| , | | | | | 3 | | |
| | The findings include | ed: | | | Action Item 1 | | |
| | Patient #1 was adm | nitted to the facility on July 26, | | | The deviation from standard | | |
| | 2014, after a motor | vehicle accident with a | | | infection control practices was | | |
| | diagnosis of a Suba | arachnoid Hemorrhage. | | | immediately identified and | | ii |
| | Medical record revi | ew revealed a urinary catheter | | | addressed and the deficient care | | 07/30 |
| | was inserted on Jul | y 26, 2014, and the patient | | | the patient remedied. The registe | ered | 2014 |
| | was admitted to the | Intensive Care Unit. | | | nurse caring for the patient | | |
| | Observation on July | y 28, 2014, at 5:00 p.m., in the | | | recognized his error and it was | | |
| | patient's room in the | e Intensive Care Unit, | | | discussed with his manager | | |
| | revealed Registere | d Nurse (RN) #1 performing re for the patient. Further | | | immediately following the incide | nt. | |
| | observation reveale | ed the RN donned gloves and | | | | | |
| | | | NATIBE | | TITLE | | (X8) DATE |
| LABORATOR' | Y DIRECTOR'S OR PROVID | DER/SUPPLIER REPRESENTATIVE'S SIGI | AVIDVE | | A CONTRACT OF THE PARTY OF THE | -1 1 | |

Any deficiency statement ending with an asterisk (*) denotes a deficiency which the Institution may be excused from correcting previding it is determined that other safeguards provide sufficient protection to the patients. (See instructions.) Except for nursing homes, the findings stated above are disclosable 90 days following the date of survey whether or not a plan of correction is provided. For nursing homes, the above findings and plans of correction are disclosable 14 days following the date these documents are made available to the facility. If deficiencies are cited, an approved plan of correction is requisite to continued program participation.

Facility ID: TNP531121

| | OF DEFICIENCIES OF CORRECTION | (X1) PROVIDER/SUPPLIER/CLIA DENTIFICATION NUMBER: | | TIPLE CONSTRUCTION | | (X3) DAT | 'E SURVEY MPLETED |
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| | 8 | | A. BUILDI | NG | | | С |
| | | 440063 | B. WING_ | | | 08/ | 04/2014 |
| | PROVIDER OR SUPPLIER ON CITY MEDICAL CE | NTER | | STREET ADDRESS, CITY, STATE, ZIP (400 N STATE OF FRANKLIN RD JOHNSON CITY, TN 37604 | ODE | | |
| (X4) ID PREFIX TAG | (EACH DEFICIENCY | TEMENT OF DEFICIENCIES / MUST BE PRECEDED BY FULL SC IDENTIFYING INFORMATION) | ID PREFIX TAG | PROVIDER'S PLAN OF CO (EACH CORRECTIVE ACTION CROSS-REFERENCED TO THE DEFICIENCY) | N SHOULD | BE | (X5) COMPLETION DATE |
| A 749 | wiped the patient's front during the care Continued observation perineal area again observation reveale and retrieved a prethe prevention of Uchanging the soiled prepackaged CHG | ge 1 perineal area from back to e with a clean wash cloth. tion revealed the RN used the cloth and wiped the patient's from back to front. Further ed the RN opened a drawer packaged CHG wipe (used for rinary Tract Infections) without gloves, opened the wipe, and cleaned the urinary anging the gloves or sanitizing | A 74 | Action plan for A 749 (co Action Item 2 The individual registered involved in the deviation standard practice receive education/mentoring from manager related to the acconcern and has an action place to ensure the deficit practice does not recur. | nurse from d individ m his reas of n plan in | lual | \$/15/2014 |
| | Review of facility por Indwelling Catheter "for females gently expose urethral me sitemaintain posit procedurebacteria the urinary catheter both men and wome each shift as post of Interview with RN # p.m., in patient #1's cleaned the patient front two times with | colley Urinary Catheter: Care, not dated, revealed, or retract the labia to fully atus and catheter insertion ion of hand throughout the all growth is common where enters the urethral meatus in enperform catheter care froutine perineal care" 1 on July 28, 2014, at 5:15 room, confirmed the nurse s perineal area from back to the wash cloth. Further | | Action Item 3 Computer Based Learning CAUTI (Catheter Associat Tract Infection) prevention assigned to all nursing tempers annually was reand all content updated on evidence based criterinecessity, appropriate instechnique, | ed Urina on modu am eviewed with focu ia for | iry ile | 09/17/ |
| | wipes from the clea gloves and cleaned with the soiled glove Interview with the In July 29, 2014, at 8:3 room, confirmed the | fection Control Preventist on 30 a.m., in the conference a nurse failed to follow ontrol practices during the | | Action Item 4 The CBL will be assigned nursing staff on nursing L with 100% successful corbe achieved no later than | vention. to all unit 2900 npletion | ס | 09/17/2014 |

| STATEMENT | OF DEFICIENCIES | (X1) PROVIDER/SUPPLIER/CLIA | (X2) MU | LTIPL | E CONSTRUCTION | (X3) DAT | E SURVEY |
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| AND PLAN (| OF CORRECTION | IDENTIFICATION NUMBER: | A, BUIL | DING. | | | C |
| | | 440063 | B. WING | | 1 | 04/2014 | |
| | PROVIDER OR SUPPLIER DN CITY MEDICAL CE | NTER | | 40 | TREET ADDRESS, CITY, STATE, ZIP CODE 00 N STATE OF FRANKLIN RD OHNSON CITY, TN 37604 | - Salamon | |
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| A 821 | discharge plan if the continuing care need the discharge plan. This STANDARD is Based on medical and interview, the faccurate discharge Discharge Medicati patient (#7) of elever The findings included Patient #7 was admired the patient was Nursing Facility on Medical record revie and physical dated. | reassess the patient's ere are factors that may affect eds or the appropriateness of s not met as evidenced by: record review, observation, acility failed to have an plan which included on Reconciliation for one en patients reviewed. ed: hitted to the facility on or a total knee replacement or discharged to a Skilled | A | 821 | Action plan for A 749 (cont.) completion is measured by a pass score of 80% or greater. Individue who fail to successfully completed CBL initially will received remediation and re-take the learning/test until successfully completed. Action Item 5 FACT Sheet for Indwelling Urinar Catheter Care Created and posted on nursing use 2900 in team member areas to reinforce expectations of standar practice Action Item 6 Urinary Catheter Simulation | rals the mit | 08/18/2014 |
| | osteoarthritishas and elected for righ historyheart with a fibrillation, leaky val patient has elected replacementwill of throughout the hosp been medically clear physician" Medical record revied ated February 5, 2 the Hospitalist, reversible. | failed conservative treatment t knee replacementmedical an atrial septal defect, atrial ve and hypertensionthe | A. | | Lab/Skills Fair Focus on proper insertion technicare and maintenance of indwel urinary catheters 100% of all nursing staff on nurs unit 2900 to attend and be evaluated via return demonstrat no later than September 17, 201 | ling ing cion | 09/17/2014 |

| | OF DEFICIENCIES OF CORRECTION | (X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: | | | ONSTRUCTION | (X3) DAT | E SURVEY PLETED |
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| | NAME OF PROVIDER OR SUPPLIER JOHNSON CITY MEDICAL CENTER | | | 400 | EET ADDRESS, CITY, STATE, ZIP CODE N STATE OF FRANKLIN RD INSON CITY, TN 37604 | | |
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| A 821 | thinner) 150mg (microgram) (medication used to 250mcg (microgram) (medication used to and heart rate) 120 twice a day, Potass used for potassium (milliequivalents) d (anti-inflammatory a day, Sotalol (medication used for bedtimeplanfor with the beta block parametersthat we and we will resume depending on how was outlined with the husbandthey are Medical record rev Medication Record 5, 2014, at 1:57 p.r. twice a daynot combined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block parametersthat we will resume depending on how was outlined with the beta block par | dications: Pardaxa (blood illigrams) twice a day, Digoxin or slow the heart rate down) ms) daily, Diltiazem or control the blood pressure long daily, Lasix (diuretic) 40mg sium Chloride (medication in replacement) 20 mEq aily, Salsalate medication) 750mg three times dication used to control cardiace g daily, and Trazodone or depression) 100mg at hypertension we will continue er with holding will begin tomorrow on the 6th, where Lasix on the 6th or 7th she is doingthis plan of care the patient and the patient's agreeable" Item of the Admission ciliation Report dated February m., revealed "Lasix 40mg ontlinued" Item of a Physicians Progress ry 7, 2014, at 11:20 a.m., bitalist, revealed, "on Lasix at his time" Item of a Physicians Progress ry 9, 2014, at 8:15 a.m., written revealed "Lasix 40mg BID | A& | 321 | Action Item 7 Auditing for Compliance The nurse manager and/or infector prevention will observe the cath care performed on at least 3 patients weekly beginning in September 2014 to ensure compliance with standard infector practices. The audits will continue until 100% compliance been met for 6 consecutive more findings that do not meet the tof 100% will have a review of the event and action plan, including education, to correct the deficient of the Quality Assurance/Process Improvement reporting process Johnson City Medical Center. Action Plan for A821 The hospital must reassess the patient's discharge plan if there factors that may affect continuit care needs or the appropriatent the discharge plan. | tion I has https: has https: harget he has https: he has has https: he has https: he has | C4/12/2013 |

| | OF DEFICIENCIES OF CORRECTION | (X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: | (X2) MULTIPLE CONSTRUCTION A. BUILDING | | (X3) DATE SURVEY COMPLETED |
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| A 821 | revealed "Lasix 4 Medical record revi Medication Adminis 9, 2014, at 8:31 a.n one tablet one time Medical record revi Reports revealed the follows: February 5 pounds]; February 5 Medical record revi Medical record revi Medication Transfe form was printed of February 7, 2014, at record review reveathe discharging phy Nurse (RN) #10 on a.m., revealed no publication the facility to the february 10, 2014 the nurse spoke with physician and confined in the facility to the february 10, 2014 the nurse spoke with physician and confined in the facility to the february revealed "the medicationsLasix sheet that I spoke we receiving Lasix on the facility receiving the facil | ew of the Discharge stration Record dated February n., revealed "Lasix 40mg a day" ew of the Nursing Assessment ne patient's weights were as , 2014, 75kg (kilograms) [165 9, 2014, 92 kg [202 pounds]. ew of the Doctors Order Sheet re Form revealed the transfer f by the 600 Nursing Unit on at 4:39 p.m. Further medical aled the telephone order from ricician received by Registered February 10, 2014, at 11:49 hysician's order for Lasix. 10 on July 29, 2014, at 3:00 nnce room, revealed the nurse y the patient was discharged he Skilled Nursing Facility). Further interview revealed the medications on the on Reconciliation Sheet which y 7, 2014. Further interview dications on the form were an by telephone and I wrote | A 82 | The STANDARD is not met as evidenced by: Based on medical record review, observation and interview, the facility failed to have an accurate discharge plan which included Discharge Medication Reconciliation for one patient of the eleven patients interviewed. Plan of Correction Action Item 1 The inaccuracy of the discharge medications for the identified patient was not discovered until after the patient was transferred to another facility. The patient did not require readmission and the error was addressed at the other facility. Action Item 2 A complete review of the error and medical record was conducted by nursing administration and risk management. | ne N∫A oot |

| | OF DEFICIENCIES OF CORRECTION | (X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: | | | COM | SURVEY PLETED | |
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| | PROVIDER OR SUPPLIER | | | 4 | TREET ADDRESS, CITY, STATE, ZIP CODE 00 N STATE OF FRANKLIN RD OHNSON CITY, TN 37604 | | |
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| | Continued From p p.m., in the confer Lasix and Potassic to the patient's blo patient was started February 9, 2014, physician" Interview with the Wing Unit on July conference room, form for the patien 2014, when the patien 2014, when the patien tissues with a fast postponed until the stable" Continue Discharge Medica should have been 2014, but it was no reconciliation form from February 7, 2 not written on the Further interview of continued on the I Reconciliation She | age 5 ence room, revealed "the um was held on admission due od pressure being lowthe d back on the Lasix on and given as ordered by the Nurse Manager for the 600 29, 2014,at 2:30 p.m., in the revealed "the reconciliation t was printed off on February 7, atient was anticipated to be ne facilitythe patient had some neart rate anddischarge was e patient was medically ed interview revealed "the tion Reconciliation Sheet reprinted on February 10, ot, so the discharge medication only showed the medications 2014therefore the Lasix was discharge medication form" Discharge Medication eet as ordered by the physician eet to perform an accurate | A & | | Action Plan for A821 (cont.) Action Item 3 The individual registered nurse involved in the completion of the inaccurate discharge medication reconciliation received individual education/mentoring from her manager related to the areas of concern and has an action plan in place to ensure the deficient practice does not recur. Action Item 4 All nursing staff and case manage on nursing units 6400 and 6500 we receive education specific to medication reconciliation with specific focus on discharge. 100% completion will be achieved no latthan September 17, 2014. Action Item 5 It was identified that the font for "printed on" date on the discharge medication form was very small as a series of the series of the series of the discharge medication form was very small as a series of the series of the discharge medication form was very small as a series of the serie | ers vill ater the | 8/15/ 2014 2014 |
| | | | | | could contribute to the failure to identify an outdated form. The formation was addressed by the IS department and completed on September 18, 2014. | | |

Division of Health Care Facilities (X3) DATE SURVEY STATEMENT OF DEFICIENCIES (X1) PROVIDER/SUPPLIER/CLIA (X2) MULTIPLE CONSTRUCTION COMPLETED IDENTIFICATION NUMBER: AND PLAN OF CORRECTION A, BUILDING: B. WING 08/04/2014 TNP531121 STREET ADDRESS, CITY, STATE, ZIP CODE NAME OF PROVIDER OR SUPPLIER 400 N STATE OF FRANKLIN RD JOHNSON CITY MEDICAL CENTER JOHNSON CITY, TN 37604 PROVIDER'S PLAN OF CORRECTION (X5) COMPLETE SUMMARY STATEMENT OF DEFICIENCIES (X4) ID PREFIX (EACH CORRECTIVE ACTION SHOULD BE (EACH DEFICIENCY MUST BE PRECEDED BY FULL PREFIX DATE CROSS-REFERENCED TO THE APPROPRIATE REGULATORY OR LSC IDENTIFYING INFORMATION) TAG TAG DEFICIENCY) H 002 H 002 1200-8-1 No Deficiencies Action Plan for A821 (cont.) During complaint investigation #33361, # 33328, #33804, #33301, and #33753 conducted on July **Auditing for Compliance** 28, 2014, through July 30, 2014, at Johnson City The nurse manager and/or designee 07/15/2015 Medical Center, no deficiencies were cited under will audit transferring medication 1200-8-1, Standards for Hospitals. records at least 5 patient weekly beginning in September 2014 to ensure compliance with the discharge medication reconciliation process. The audits will continue until 100% compliance has been met for 6 consecutive months. Findings that do not meet the target of 100% will have a review of the event and action plan, including education, to correct the deficiency. The findings of the audit will be part of the Quality Assurance/Process Improvement reporting process for Johnson City Medical Center.

Division of Health Care Facilities
LABORATORY DIRECTOR'S ORPROVIDER'S UPPLIER REPRESENTATIVE'S SIGNATURE

TITLE

(X6) DATE

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STATE FORM

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(X7) DATE

(X8) DATE

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FORM APPROVED

| STATEMENT OF DEFICIENCIES ND PLAN OF CORRECTION | (X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: | (X2) MULTIPLE CONSTRUCTION A. BUILDING | | | (X3) DATE SURVEY COMPLETED | |
|---|---|---|---|--------------|-------------------------------|--|
| NUT OF STATE | 445356 | B. WING | | - :-) himme | | |
| NAME OF PROVIDER OR SUPPLIER PRINCETON TRANS CARE AT | | 1 3 | STREET ADDRESS, CITY, STATE, ZIP CODS 2511 WESLEY STREET JOHNSON CITY, TN 37601 | 04 | /30/2014 | |
| CRECIX LEACH DEFICIENCY | TEMENT OF DEFICIENCIES MUST BE PRECEDED BY FULL C IDENTIFYING INFORMATION) | ID PREFIX TAG | PROVIDER'S PLAN OF CORREC (EACH CORRECTIVE ACTION SHO CROSS-REFERENCED TO THE APPI DEFICIENCY) | MUDDE | (3K) NCITELPINCO DATE | |
| F 000 INITIAL COMMENT | S | F 000 | | 5 | | |
| F 272 483.20(b)(1) COMPISSED ASSESSMENTS The facility must con a comprehensive, ac reproducible assessment of a resident assessment of a resident assessment by the State. The assessment following: Identification and dem Customary routine: Cognitive patterns; Communication; Vision; Identification and behavior patterns; Continence; Disease diagnosis and Dental and nutritional services and Dental and nutritional services and Dental and nutritions; Special treatments and Discharge potential; Documentation of summ | duct initially and periodically curate, standardized nent of each resident's a comprehensive dent's needs, using the instrument (RAI) specified essment must include at ographic information; tterns; g; d structural problems; health conditions; talus; | | Resident #80 was immediately assessed by DON/designee for dental needs and no negative effects noted. Care plan was immediately updated to reflect patient care needs. All other residents were assessed by DON/designee for dental needs and no further deficient practices were noted. DON/Designee to inservice all registered nurses on patient | | | |
| areas Iriggered by the c Data Set (MDS); and Documentation of partic | ompletion of the Minimum | - 1 | assessment and care plan documention by 5/20/14. | | | |

OR'S OR PROVIDER SUPPLIER REPRESSIONATIVE'S SIGNATURE

TITLE

(X0) DATE

leng statement eading ruly and state. It sends a deficiency which the institution may be excused from correction and additional that stated provide sufficient providing to the patients. (See instructions.) Except for nursing homes, the findings stated above are disclosable 90 days by solitowing the date these documents are made available to the facility. If deficiencies are clied, an approved plan of correction is regulated to continued

3384

DEPARTMENT OF HEALTH AND HUMAN SERVICES CENTERS FOR MEDICARE & MEDICAID SERVICES FORM APPROVED OMB NO. 0938-0391 STATEMENT OF DEFICIENCIES (X1) PROVIDER/SUPPLIER/CLIA (X2) MULTIPLE CONSTRUCTION AND PLAN OF CORRECTION IDENTIFICATION NUMBER: (X3) DATE SURVEY A. BUILDING COMPLETED 445355 8. WING NAME OF PROVIDER OR SUPPLIER 04/30/2014 STREET ADDRESS, CITY, STATE, ZIP CODE PRINCETON TRANS CARE AT NORTH 2511 WESLEY STREET JOHNSON CITY, TH 37501 SUMMARY STATEMENT OF DEFICIENCIES (X4) ID PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE PREFIX (EACH DEFICIENCY MUST BE PRECEDED BY FULL (X6) COMPLETION DATE PREFIX TAG REGULATORY OR LSC IDENTIFYING INFORMATION! TAG DEFICIENCY) F 272 Continued From page 1 F 272 DON/Designee to perform audit of resident charts for dental This REQUIREMENT is not met as evidenced assessments to take place for 5 residents/day Based on medical record review and interview, for 5 days/week for 2 the facility failed to assess dental needs for one resident (#80) of twenty-one residents reviewed weeks. Then 3 during stage 2. residents/day for 3 days/week for 2 weeks to The findings included: monitor compliance. Resident #80 was admitted to the facility on April Audit information to be 17, 2014, with diagnoses including Coronary documented and Artery Disease, Chronic Obstructive Pulmonary Disease, and Diabetes Mellitus. presented to QA committee and Observation and Interview, with the resident on Administrator quarterly April 28, 2014, at 12:01 p.m., in the resident's room revealed the resident had concerns with for evaluation of further dentures. Continued interview revealed the 5/23/2014 possible action. resident has not experienced any weight loss and does not have any problem eating. . Interview with the Director of Nursing on April 30, : 2014, at 11:38 a.m., in the facility conference room confirmed the facility had failed to assess the resident's dental needs, F 279 : 483.20(d), 463.20(k)(1) DEVELOP F 279 SS=D COMPREHENSIVE CARE PLANS

comprehensive plan of care.

A facility must use the results of the assessment to develop, review and revise the resident's

FORM APPROVED MB NO. 0938-0391

| STATEMENT OF DEFICIENCIES | WILD CAID SERVICES | | | ONB NO | 0938-039 |
|--|---|---------------|--|----------|----------------------|
| NO PLAN OF CORRECTION | (X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: | | FIPLE CONSTRUCTION NG | (X3) DA | TE SURVEY MPLETED |
| | 445356 | B. WING | | 221 2211 | V/2 / |
| NAME OF PROVIDER OR SUPPLIER | | | CEDEET ADDRESS AND A | 04 | /30/2014 |
| to Contract the same and the sa | | f | STREET ADDRESS, CITY, STATE, ZIP COD | E | |
| PRINCETON TRANS CARE AT | NORTH | 1 | 2511 WESLEY STREET | | |
| (VA) IS STRAIT BY STREET | | | JOHNSON CITY, TN 37601 | | |
| PREFIX (EACH DEFICIENCY | EMENT OF DEFICIENCIES MUST BE PRECEDED BY FULL C IDENTIFYING INFORMATION) | PREFIX TAG | PROVIDER'S PLAN OF CORRE (EACH CORRECTIVE ACTION SH CROSS-REFERENCED TO THE APP DEFICIENCY) | OUI D &C | COMPLETION DATE |
| F 279 Continued from | • | | Resident #76 was assessed by | | |
| F 279 Continued From pag | e 2 | F 27 | 9 DON/designee without any | | 1 |
| The facility must dev | elop a comprehensive care | i. | Indication of negative effects and | | 1 |
| plan for each residen | il that includes measurable | 8 | care plan was immediately updated | | 1 |
| objectives and timeta | bles to meet a resident's | Ĩ | for patient care needs. | | 1 |
| medical, nursing, and | d mental and psychosocial | - | All care plans for patients with | | ř |
| needs that are identif | led in the comprehensive | 1 | depression diagnosis were assessed | | ľ. |
| assessment, | | 1 | by DON/designee and no other care | 9 | £) |
| | | : | plans were found to be deficient. | 1 | |
| The care plan must d | escribe the services that are | į | | | |
| to be furnished to atta | in or maintain the resident's | • | DON/Designee to Inservice all | | |
| highest practicable pr | iysical, mental, and | r. | registered nurses on patient | _ | |
| psychosocial well-beir | ng as required under | Ì | assessment and care plan | | |
| \$483.25; and any sen | vices that would otherwise | l l | documention by 5/20/14. | | |
| be required under §48 | 3.25 but are not provided | | | 3 | |
| oue to the resident's e | xercise of rights under | | DON/Designee to audit care plans | 7 | į |
| \$463.10, including the | right to refuse treatment | | of patients with depression | 1 | |
| under §483.10(b)(4). | | | diagnosis 3 residents/day for 3 | | 1 |
| : | | | days/wk for 2 weeks, 2 | i | 1 |
| This DECUIDENCE | | | residents/day for 2 days/wk for 2 | | - 1 |
| by; | is not met as evidenced | | weeks to monitor compliance. | 1 | 1 |
| Based on medical | real for early consists on the province approximation | | Documentation to be presented to | 3 | 1 |
| the facility failed to day | ord review and interview, | | QA committee and administrator | 19 | ł |
| the facility failed to dev | elop a comprehensive | | for evaluation for possible further action. | i | 1 |
| (#76), and falled to dev | epression for one resident | | Q# St | i | + |
| address dialysis for one | elop a care plan to | i | Resident #94 was assessed by | 2 | 1 |
| twenty-one residents re | vious during store 2 | 1.5 | DON/designee for dialysis/renal | 4 | 1 |
| i i one residents re | wiewed adring stage 2. | 13 | needs without any negative effects | 1 | 1 |
| The findings included: | | į | indicated, and it was found that the patient's order for dialysis was | 1 | 1 |
| menga meladea, | | ¥ | being followed and care plan was | Ĭ. | |
| Resident #76 was admi | tted to the facility on April | Ť. | immediately updated to reflect | 7 | - 1 |
| 22, 2014 with diagnose | s including Migraines with | 1 | patient care needs. | 9 | Į. |
| Right Sided Weakness, | Deconditioning and | j | All care plans for patients with | 1 | 1 |
| Variable Expressive Spa | sech | ĺ | order for dialysis were assessed by | i | 1 |
| | | Į | DON/designee and no other care | 1 | |
| Medical record review of | f the current Physician's | | plans were found to be deficient. | | |
| medication orders revea | led, "Paxii | | DON/Derigons to because | į | 1 |
| (antidepressant) 20 mg/ | (millionams) for | 1 | DON/Designee to inservice all | 4 | |
| donconing 110 | (mingrantis) (or | | registered purses on matters | 80 | 100 |
| the care plan updated Ap | medical record review of | | registered nurses on patient assessment and care plan | Ì | |

| STATEMENT OF DEFICIENCIES | & MEDICAID SERVICES (X1) PROVIDER/SUPPLIER/CLIA | 1,000 | UI | MB MC | 0.0938-03 |
|--|--|---------------------|--|-------------------------|--|
| AND PLAN OF CORRECTION | IDENTIFICATION NUMBER: | A. SUILDIN | PLE CONSTRUCTION | (X3) DA CO | TE SURVEY MPLETED |
| | 445356 | B. WING | | (* 2.300 (4) | X##00################################# |
| NAME OF PROVIDER OR SUPPLIER | | · | STREET ADDRESS, CITY, STATE, ZIP CODE | 04 | /30/2014 |
| PRINCETON TRANS CARE AT | NORTH | 18 | 2511 WESLEY STREET JOHNSON CITY, TN 37601 | | |
| PREFIX (EACH DEFICIENCY | TEMENT OF DEFICIENCIES MUST BE PRECEDED BY FULL BC IDENTIFYING INFORMATION) | ID PREFIX TAG | PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD E CROSS-REFERENCED TO THE APPROPRI DEFICIENCY) | 25 | COMPLETIO DATE |
| F 279 Continued From page | ge 3 | F 279 | 3 | | |
| documentation of th | e depression. | | 3 | | Ç. |
| 23, 2014, with diagn Vascular Accident, V Enterococcus, and E Medical record review Physician orders date "dialysis Tue (Tues (Saturday)no BP Lt Interview with the Dire 2014, at 3:30 p.m., in confirmed the care pl depression for residenthe dialysis for residenth | w of the Long Term Care ad April 23, 2014, revealed day), Thur (Thursday), Sat JE (left upper extremity)" actor of Nursing on April 29, the facility conference room an failed to address the at #76 and falled to address in #94. CURE, ERVE - SANITARY sources approved or y by Federal, State or local | F 371 | DOIN/Designee to audit all current dialysis patients and new dialysis admissions 2x/wk for 2 weeks and then 1x/wk for 2 weeks to monitor compliance. Audit information to be documented and presented to QA committee and Administrator quarterly for evaluation of further possible action. | | 5/23/2014 |
| This REQUIREMENT by: Based on observation. | s not met as evidenced facility policy review, and ed to maintain a sanitary | | | | |

| STATEMEN | NT OF DEFICIENCIES | RE & MEDICAID SERVICES | 1 | | OMB NO | M APPROV 0. 0938-0: |
|--------------------------|--|--|---------------------|---|---------|------------------------|
| AND PLAN | OF CORRECTION | (X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: | A. BUILDIN | IPLE CONSTRUCTION VG | (X3) DA | TE SURVEY |
| | _ 2 | 445356 | B. WING | · Anni Anni Anni Anni Anni Anni Anni Ann | - | H10.4W-200 II |
| NAME OF | PROVIDER OR SUPPLIES | 3 | - | STREET ADDRESS, CITY, STATE, 2IP CODE | 04 | 1/30/2014 |
| PRINCE | TON TRANS CARE A | T NORTH | | 2511 WESLEY STREET JOHNSON CITY, TN 37601 | | |
| (X4) ID PREFIX TAG | LEACH DEFICIENC | ATEMENT OF DEFICIENCIES BY MUST BE PRECEDED BY FULL LSC IDENTIFYING INFORMATION) | ID PREFIX TAG | PROVIDER'S PLAN OF CORRECTI (EACH CORRECTIVE ACTION SHOUL CROSS-REFERENCED TO THE APPRO DEFICIENCY) | DOM | (X5) COMPLETI |
| | Continued From pa | | F 37 | All open, unlabeled and undated Items were | | |
| th rear | revealed the following and unlabeled; three cream of wheat cere bag of pancake mix corn starch, one box mashed potatoes, o one bag of chicken of canch dressing mix, bag of beef gravy mix ponion mix, and one be considered the following and unlabeled; one bag of fren iced potatoes. The Dietary Manager, one bag of fren iced potatoes. The Dietary Manager, wealed the following ind unlabeled; one bag of the considered potatoes. The Dietary Manager, wealed the following ind unlabeled; one part to the dry storage room the dry storage | il 28, 2014, at 10:10 a.m., nager, in the kitchen prep area ng items all opened, undated e boxes of rice, one box of eal, one bag of sugar, one, one bag of flour, one box of k of grits, two bags of Instant ne bag of biscuit gravy mlx, gravy mix, one package of one bag of pasta mix, one ix, three bags of french fried bag of pork gravy mlx. 28, 2014, at 10:20 a.m., with in the walk-in freezer gitems all opened, undated, ox of pork sausage puree occoli, one bag of onion och fries, and one bag of occoli, one bag of onion ich fries, and one bag of occoli, one bag of onion och fries, and one bag of occoli, one bag of onion och fries, and one bag of occoli, one bag of onion och fries, and one bag of occoli, one bag of onion och fries, and one bag of occoli, one bag of onion och fries, and one bag of occoli, one bag of onion och fries, and one bag of occoli, one bag of onion och fries, and one bag of occoli, one bag of onion och fries, and one bag of occoli, one bag of onion och fries, and one bag of occoli, one bag of onion och fries, and one bag of occoli, one bag of onion och fries, and one bag of occoli, one bag of onion och fries, and one bag of occoli, one bag of onion och fries, and one bag of occoli, one bag of onion och fries, and one bag of occoli, one bag of onion occoli, one bag of onion och fries, and one bag of occoli, one bag of occ | | immediately disposed of by dietary manager. All other items located in the kitchen prep area, freezer, refrigerator and dry storage areas were immediately assessed and no other packages or containers were found to be deficient. Dietary Manager/designee to inservice food service personnel on labeling, dating, and open packages by 5/14/14. Monitoring of this information added to Basic Sanitation Checklist form. Dietary Manager/Designee to assess dietary department for open, unlabeled and undated items 5x/wk for 2 weeks, then 3 days/wk for 2 weeks to monitor compliance. Dietary Manager to communicate this information to QA committee and administrator for evaluation for further | 55, | <u>/2</u> 3/2014 |
| an Re Pro | d two bags of egg no view of facility policy ocedures, revised Ja | one bag of bread crumbs, codles. , Food and supply Storage inuary 2012 revealed a unused portions and | | | | |

DEPARTMENT OF HEALTH AND HUMAN SERVICES

CENTERS FOR MEDICARE & MEDICAID SERVICES OMB NO. 0938-0391 STATEMENT OF DEFICIENCIES (X1) PROVIDER/SUPPLIER/CLIA (X2) MULTIPLE CONSTRUCTION AND PLAN OF CORRECTION (X3) DATE SURVEY IDENTIFICATION NUMBER: A. BUILDING COMPLETED 445355 B, WING 04/30/2014 NAME OF PROVIDER OR SUPPLIER STREET ADDRESS, CITY, STATE, ZIP CODE PRINCETON TRANS CARE AT NORTH 2511 WESLEY STREET JOHNSON CITY, TH 37601 SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION) (X4) ID PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE ID PREFIX PREFIX (X3) COMPLETION TAG TAG DATE DEFICIENCY) F 371 Continued From page 5 F 371 Trash cans in hand washing Interview with the Dietary Manager on April 26, areas without foot pedals were 2014, at 10:40 a.m., in the kitchen confirmed the replaced with trash cans which facility had falled to follow facility policy for food slorage. utilize foot pedals on 5/3/14. Other trash cans located at Observation with the Dietary Manager on April hand washing areas were 28, 2014, at 10:40 a.m., at the hand washing sink assessed and no other in the kitchen revealed two of two trash cans with receptacles were found to be no foot pedals to prevent cross contamination deficient. after sanitizing the hands. Dietary manager to monitor use of garbage container 5x/wk Interview with the Dietary Manager on April 28, for 2 weeks and then 3x/wk for 2014, at 10:40 a.m., in the kitchen confirmed the 2 weeks to monitor facility had falled to prevent cross contamination compliance. by not providing proper hand sanitation Dietary manager/designee to equipment. inservice food service personnel on handwashing and use of trash cans with foot pedals to avoid cross contamination by 5/19/14. 5/23/2014 Functionality of trash cans to be added to monthly kitchen inspection.

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| STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION | (X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: | | E CONSTRUCTION | (X3) DAT | E SURVE |
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| | <u></u> | | | CON | APLETED |
| | TN9004 | B, WING | | | 1001000 |
| NAME OF PROVIDER OR SUPPLIER | STREET | | STATE, ZIP CODE | 1 (14, | /30/201 |
| PRINCETON TRANS CARE AT | | SLEYSTREE | | | |
| | JOHRSC | DR CITY, TH 3 | 7601 | | |
| PREFIX (EACH DEFICIENCY | ATEMENT OF DEFICIENCIES Y MUST BE PRECEDED BY FULL SC IDENTIFYING INFORMATION) | ID PREFIX TAG | PROVIDER'S PLAN OF C (EACH CORRECTIVE ACTIC CROSS-REFERENCED TO TH DEFICIENCY | N SHOULD BE | COM |
| N 000: Initial Comments | | N 000 | | | i |
| : 2014, at Princeton 7 | was completed on April 28-30, Fransitional Care. No led under Chapter 1200-8-6, ng Homes. | | | | |
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PRINTED: 05/01/2014 FORM APPROVED

| K 062 SS=D Required automatic sprinkler systems are continuously maintained in reliable operating condition and are inspected and tested periodically. 19.7.6, 4.6.12, NFPA 13, NFPA 25, 9.7.5 This STANDARD is not met as evidenced by: NFPA 25, 5.2.1.1.1 Sprinklers shall not show signs of leakage; shall be free of corrosion, foreign materials, paint, and physical damage; and shall be installed in the proper orientation (e.g., upright, pendent, or sidewall). NFPA 25, 5.2.1.1.2 Any sprinkler shall be replaced that has signs of leakage, is painted, corroded, damaged, or loaded; or in the improper orientation. Based on observation and interview, it was determined the facility failed to ensure sprinkler heads were free of corrosion. The findings include: Observation and interview with the Maintenance Director, on April 29, 2014 at 7:55 a.m. confirmed 2 of 10 sprinkler heads in Physical therapy were corroded. | K 062 N SS=D R CC CC PE 9. | SUMMARY STA (EACH DEFICIENCY REGULATORY OR LI | THORTH TEMENT OF DEFICIENCIES MUST BE PRECEDED BY FULL SC IDENTIFYING INFORMATION) | ID PREFIX | 2511 WESLEY STREET JOHNSON CITY, TN 37601 PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD | N N | , |
|--|---|--|--|--------------|--|--------|---------|
| PRINCETON TRANS CARE AT NORTH (X4) ID PREFIX (AND DEFCIENCY MUST BE PRECIDED BY FULL REGULATORY OR LISC IDENTIFYING INFORMATION) (X6) ID PROVIDERS PLAN OF CORRECTION (CACH DEFCIENCY MUST BE PRECIDED BY FULL REGULATORY OR LISC IDENTIFYING INFORMATION) (X 052 NFPA 101 LIFE SAFETY CODE STANDARD Required automatic sprinkler systems are continuously maintained in reliable operating condition and are inspected and tested periodically. 19.7.6, 4.6.12, NFPA 13, NFPA 25, 9.7.5 This STANDARD is not met as evidenced by: NFPA 25, 5.2.1.1.1 Sprinklers shall not show signs of leakage; shall be free of corrosion, foreign materials, paint, and physical damage; and shall be installed in the proper orientation (e.g., upright, pendent, or sidewall). NFPA 25, 5.2.1.1.2 Any sprinkler shall be replaced that has signs of leakage; is painted, corroded, damaged, or loaded; or in the improper orientation. Based on observation and interview, it was determined the facility failed to ensure sprinkler heads were force of corrosion. The findings include: Observation and interview with the Maintenance Director, on April 29, 2014 at 7:55 a.m., confirmed 2 of 10 sprinkler heads in Physical therapy were corroded. This finding was verified by the Maintenance Supervisor and acknowledged by the Administrator during the exit conference on April 29, 2014. NFPA 101 LIFE SAFETY CODE STANDARD Piped in medical gas systems comply with NFPA | (X4) ID PREFIX TAG K 062 N SS=D R CC CC PE 9. | SUMMARY STA (EACH DEFICIENCY REGULATORY OR LI | TEMENT OF DEFICIENCIES 'MUST BE PRECEDED BY FULL SC IDENTIFYING INFORMATION) | ID PREFIX | 2511 WESLEY STREET JOHNSON CITY, TN 37601 PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD | N N | Ţ |
| FREFIX TAG SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION) K 082 | K 062 N SS=D R cc cc pe 9. | REGULATORY OR LI | ' MUST BE PRECEDED BY FULL SC IDENTIFYING INFORMATION) | ID PREFIX | PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD |) DE | (X5) |
| Required automatic sprinkler systems are continuously maintained in reliable operating condition and are inspected and tested periodically. 19.7.6, 4.6.12, NFPA 13, NFPA 25, 9.7.5 This STANDARD is not met as evidenced by: NFPA 25, 5.2.1.1.1 Sprinklers shall not show signs of leakage; shall be free of corrosion, foreign materials, paint, and physical damage; and shall be installed in the proper orientation. Based on observation and interview, it was determined the facility failed to ensure sprinkler heads were free of corrosion. The findings include: Observation and interview with the Maintenance Director, on April 29, 2014. OTT NFPA 101 LIFE SAFETY CODE STANDARD Required automatic sprinkler systems are continuously maintained in reliable operating condition and resistance on 5/15/14. All other sprinkler heads located within the resident area were assessed by Facility engineer and no other sprinkler heads were found to be deficient. Administrator to inservice maintenance director on life safety code for sprinkler seads were formed heads in be proper orientation. Considered within the resident area were assessed by Facility engineer, and no other sprinkler heads were formed no other sprinkler heads were formed no other sprinkler heads were formed no other sprinkler heads were free for beat great and proper orientation of particular to the proper orientation. Based on observation and interview, it was determined the facility failed to ensure sprinkler heads. Documentation by facility engineer, Facility Engineer/designee to perform quarterly assessment of facility sprinkler heads. Documentation to be presented to QA committee and administrator for evaluation for possible further action. 5/23/20 NFPA 101 LIFE SAFETY CODE STANDARD Piped in medical gas systems comply with NFPA | SS=D R cc | Required automatic | FETY CODE STANDARD | 2 | DEFICIENCY) | RIATE | COMPLET |
| Piped in medical gas systems comply with NFPA | NF rep cor orice Bas detchea The Obs Directher This Sup Adm 29, 2 | chis STANDARD is NFPA 25, 5,2,1,1,1 igns of leakage; shareign materials, pand shall be installed a specific product that has significant ation. The second on observation are findings include: pervisor and interfector, on April 29, 20 infirmed 2 of 10 spring a specific pervisor and acknown instrator during the 2014. | sprinkler systems are ined in reliable operating spected and tested 6, 4.6.12, NFPA 13, NFPA 25, not met as evidenced by: Sprinklers shall not show all be free of corrosion, int, and physical damage; I in the proper orientation of, or sidewall). Any sprinkler shall be ns of leakage; is painted, or loaded; or in the improper of and interview, it was a failed to ensure sprinkler prosion. View with the Maintenance 2014 at 7:55 a.m. inkler heads in Physical 1. ed by the Maintenance wiedged by the ne exit conference on April | | Corroded sprinkler heads found in the physical therapy gym were replaced on 5/15/14. All other sprinkler heads located within the resident area were assessed by Facility engineer and no other sprinkler heads were found to be deficient. Administrator to inservice maintenance director on life safety code for sprinkler system maintenance by 5/13/14. Cleaning and inspecting of all sprinkler heads to be entered into work order system for quarterly completion and documentation by facility engineer. Facility Engineer/designee to perform quarterly assessment of facility sprinkler heads. Documentation to be presented to QA committee and administrator for evaluation for possible further | | 5/23/20 |
| | Pipe | ed in medical gas s Chapter 4. | ystems comply with NFPA | | | | |

Discovery systement enting with an asta isk (*) denotes a deficiency which the institution may be excused from correcting providing it is determined that only safeguares provide sufficient protection to the patients. (See instructions.) Except for nursing homes, the findings stated above are disclosable 90 days following the date of survey whether or not a plan of correction is provided. For nursing homes, the above findings and plans of correction are disclosable 14 program participation.

PRINTED: 05/01/2014 FORM APPROVED

| OLIVIL | NO FOR MEDICARE | & MEDICAID SERVICES | | | | KIM APPROV |
|--------------------------|---|---|--|---|---|----------------------------|
| STATEMEN AND PLAN | PT OF DEFICIENCIES OF CORRECTION | (X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: | (X2) MULTIPLE CONSTRUCTION A. BUILDING 01 - MAIN BUILDING 01 | | OMB NO. 0938-039 (X3) DATE SURVEY COMPLETED | |
| | | 445356 | B. WING | | | |
| | PROVIDER OR SUPPLIER TON TRANS CARE AT | NORTH | 2 | STREET ADDRESS, CITY, STATE, ZIP CODE 1511 WESLEY STREET 10HKSON CITY, TN 37601 | 1 0 | 4/29/2014 |
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| | Based on observation determined the facili installation in storage enclosures for nonflicomply with the stan wall fixtures, switched installed in fixed local above the floor as a physical damage. (19 The findings include: Observation with the April 29, 2014 at 7:30 respiratory therapy si 23 E -size oxygen cyswitches and outlets above the floor. This finding was verif Supervisor and acknowledge. | on and interview, it was ity failed to ensure electric e locations or manifold ammable medical gases idards of NFPA 99. Electric es, and receptacles shall be ations not less than 5-feet precaution against their peg NFPA 99, 4-3.1.1.2 (a)4) Maintenance Director on D AM confirmed the torage room used for storing linders had electrical located lower than 5-feet | K 077 | Excess amount of O2 cylinders were removed from room and reduced to 12 cylinders to comply with regulation by (5/15/14) Other areas of facility were assessed by facility engineer for excessive O2 tanks without indication of further deficiency. Maintenance director/designee to inservice staff members designated to administer O2 on regulatory compliance for O2 storage by 5/23/14 Facility Engineer/designee to perform audit of O2 storage 5x/wk for 2 weeks, and then 3x/wk for 2 weeks to monitor compliance. Documentation to be presented to QA committee and administrator for evaluation for possible further action. | | 5/23/201 |

| STATEME AND PLAN | of Health Care Facilities T OF DEFICIENCIES (X1) PROVIDER/SUPPLIER/CLIA OF CORRECTION DENTIFICATION NUMBER | | (X2) MULTIPLE CONSTRUCTION | | (X3) DAT | (X3) DATE SUR | |
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| | T. VOICEOTOR | IDENTIFICATION NUMBER: | A. BUILDING: 01 - MAIN BUILDING 01 | | COM | PLET | |
| | TN9004 | | B. WING | | | | |
| NAME OF | PROVIDER OR SUPPLIER | | | 041 | 04/29/20 | | |
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| N 002 | 1200-8-6 No Deficie | encies | N 002 | | * | İ | |
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| | During the Life Safe Licensure survey co deficiencies were cit Standards for Nursin | ty portion of the annual nducted on April 29, 2014, no ed under 1200-8-6, ng Homes. | | | | | |
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TKDA21



STATE OF TENNESSEE DEPARTMENT OF HEALTH

OFFICE OF HEALTH LICENSURE AND REGULATION
EAST TENNESSEE REGION
7175 STRAWBERRY PLAINS PIKE, SUITE 103
KNOXVILLE, TENNESSEE 37914

June 27, 2014

Mr. Ryan Youngblood, Administrator Princeton Transitional Care at North 2511 Wesley Street Johnson City TN 37601

Re: 44-5356

Dear Mr. Youngblood:

The East Tennessee Regional Office of Health Care Facilities conducted a Health and Life Safety Code recertification survey on April 28 - 20, 2014. A desk review of your plan of correction for deficiencies cited as a result of the survey was conducted June 26, 2014. Based on the review, we are accepting your plan of correction and are assuming your facility is in compliance with all participation requirements as of May 23, 2014.

If you have any questions, please contact the East Tennessee Regional Office by phone: 865-594-9396 or by fax: 865-594-5739.

Sincerely,

Karen B. Kirby, R.N. Regional Administrator

ETRO Health Care Facilities

KK:afl

ATTACHMENT C, PROOF OF PUBLICATION

Publication of Intent,
Johnson City Press



Sionaker, George Sionaker, George Devault, Gary Lewis Virginia Lewis Valentine D Cress

Known, Anita Elaine Default Miller, Mary Donnelly, Joseph Pierson McComick, Jr., Helen McComick Gray, Tracy Default, Beverty Andrews, De-borah Jo McGlotton, Myra Faye Monroe, Frances McFarland, Unknown and Unborn Heirs of those buried at Dewahlf Cemetery

made for four (4) consecutive weeks, as required by law in the Johnson City. Press, a newspaper published in Johnson City, Tennessee, in said County, notifying said Unknown Heirs to file an answer with Plantiff's Attorney, James M. Wheeler, whose address is in this cause, it appearing from the Hettion rewinds swom to, that the Unknown, Unborn, Unlocated and/or Unscentainable Heirs of those tery, Defendants in this cause (collectively, the Unknown of Court, whose address is Washington County Justice Center, 108 W. Jackson Blvd... Suite 2157, Jonesborough... Tennessee 37659 within thir e Box 308, n, 37659 and c & Master of this o a (30) days from the last date publication, exclusive of otherwise unknown, unbom or unascertainable, it is ordered by me that publication be made for four (4) consecutive Heirs"), are non-residents of the State of Tennessee or are Post C.... Jonesborough & Master with the Clerk & Master address with the County Just publication,

day of Sept. judgement by default may entered and the cause set hearing ex parte as to them. the 4th said date of

to the stability of the first

on Mondayr 542-4465 t 080

Fred Holl Sat. Sep Antiques

3711 East M www.auctio

Kimball M

Empl

The published Letter of Intern must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health ment pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a writen notice with the Health Services and Development Agency no later than fifteen (15) days before the velopment Agency no later than fifteen (15) days before the velopment Agency insetting at which the application is originally scheduled; and meeting at which the application is originally scheduled; and file written objection with the Health Services and Development C file written objection with the Health Services and Development C Agency at or prior to the consideration of the application by the The anticipated date of filing the application is: September 15. 2014 The contact person for this project is Allison Rogers Vice-President, Strategic Planning who may be reached at Mountain States Health Alliance 303 Med Tech Parkway, Suite 330. Johnson City TN 37604. Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to: compassion e perienced e perienced e historia manuel no previoust on previoust perience shifts including care persons will disabilities and maintails ble and sark ment. Stariff ment. Stariff edisabilities and maintails ble and sark ment. Stariff ment. Stariff ment. Stariff edisabilities and maintails ble and sark ment. Stariff ment. Stariff edisabilities and maintails ble and sark ment. Stariff edisabilities and sark ment. Stariff edisabilities and sark ment. Stariff edition and sark ment. Stariff edition and sark ment. Stariff edition and sark ment. Stariff edition and sark ment. Stariff edition and sark ment. Stariff edition and sark ment. Stariff edition and sark ment. Stariff edition and sark ment. Stariff edition and sark ment. Stariff edition and sark ment. Stariff edition and sark ment. ces are red Dawn of Ho land Ave., J 37601. employment required. Diploma/GE License and Dawn of Ho

Health Services and Development Agency Andrew Jackson Building 500 Deaderick Street, Suite 850 Nashville, Tennessee 37243

The Salvation time Housing time Warehout tions available Brenda Sneyd

Agency.

Fax: 423-929-9097 423-722-0509

Monday thru Friday 8 am - 5 pm

classifieds@iohnsoncityas~~~

NOTICE OF EXCHANGE PROPOSAL LAND-FOR-LAND EXCHANGE

Legals

Legals

NOTIFICATION OF INTENT TO APPLY FOR A CERTIFICATE OF NEED

Notice is hereby given that the Forest Service, United States Department of Agriculture, is considering an exchange of land Department of Agriculture, is considering an exchange of land in fee owneaship with Mr. Paul Famor by authority of the Act of March 11911 as amended (16 USC 516); 16 USC 1241 (1241 - 1251), the Act of October 21, 1976 (PL. 94 - Stat. 2743, as amended; 43 USC 1701) (1716), and the Act of August 20, 1988 (P.L. 100-408; 102 Stat.1086; 43 U.S.C. 1716, U.S.C. 751).

The land under the jurisdiction of the USDA Forest Service being considered for exchange is described as: Tract Ubeing considered for exchange is described as: Tract Ulasse (Federal land) contains approximately 53 acres, more or 1598 (Federal land) contains a pract of a larger or parent less, of vacant wooded land, being a part of a larger or parent less of exceed land. Being a part of a larger or parent less that First and Second Cvill Districts of Unicol County, Tennes es approximately 6 miles southwest of Erwin the County, Seat see approximately 6 miles southwest of Erwin the County Seat Sea proximately 6 miles southwest of Erwin the County Seat Sea proximately for Unicol County. The land is more specifically located north of Gilbert Branch of Gilbert Branch Road, near the intersection of Gilbert Branch Road and Spivey Mountain Road, U.S. Highway 19W/St. Route 36. This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with velopment Agency and all interested parties, in accordance with rices and Development Agency, that Johnson City Medical Cerices than an ownership type of Not-for-Porfit Corporation and to be managed by: Self intends to file an application for the relocation Princeton Transitional Cerices of Need for the relocation Princeton Transitional Cerices and Coulled Rehabilitation Hospital at 2511 Wesley at 400 North State of Franklin Road, Johnson City, Millson City, Medical Cerices at 400 North State of Franklin Road, Johnson City, Millson City, Medical Cerices on Johnson City, Millson City, Medical Cerices of Transitional Cares or Johnson City Medical Cerices of Instruction bed complement. The estimated project cost is \$21,000.

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The non-Federal lands are described as: Tract U-1599 (non-federal land) which contains approximately 53 acres, more or less, situated in the Fourth (4th) Civil District of Unicol County, Tennessee approximately 1 mile northeast of Erwin the County Seat for Unicol County, The land is more specifically located east of Pippin Hollow Road and on the north side of North Indian Creek and McInturf Springs Road near the 1-26 Corridor.

The Forest Service proposes to acquire land which may contain floodplains associated with North Indian Creek. The Forest Service proposes to exchange lands which may contain floodplains associated with Gilbert Branch and Granny Lewis Creek.

-17.7

The Forest Service must analyze and determine that it is in public interest to enter into a land for land exchange with Mr. Famor. Additionally, any or all of the above-described lands may be exchanged if the values are equal. If the values are unequal, either party may equalize the values by making cash payment, not to exceed 25 percent of the value of the lands transferred out of Federal ownership.

Persons claiming such properties or having valid objections to this proposed exchange must file their claims or objections with the Forest Supervisor. Cherokee National Forest, Forest Service, United States Department of Agriculture, 2800 North Occee Street, Cleveland, TN 37312, within 45 days after the initial date of publication of this notice.

11200 122

> **ERTISING SALES** ADV

ATTACHMENT

Affidavit for Application

AFFIDAVIT

| STATE OF TENNESSEE | LLI (f) |
|---|--|
| COUNTY OF Washington | |
| | |
| Grace Pereira | , being first duly sworn, says that |
| he/she is the applicant named in this application | or his/her lawful agent, that this project |
| will be completed in accordance with the applica | tion, that the applicant has read the |
| directions to this application, the Tennessee Hea | aith Services and Development Agency |
| and T.C.A. § 68-11-1601, et seq., and that the re | sponses to questions in this |
| application or any other questions deemed appro | ppriate by the Tennessee Health |
| Services and Development Agency are true and | SIGNATURE FILTERNIES PUBLIC OF PUBLIC OF |
| Sworn to and subscribed before me this 📋 d | day of September, 2014 a Notary (Month) |
| Public in and for the County of | State of Tennessee. |
| | |
| Denvi R. Claro | |
| NOTARY PUBLIC | |
| My commission expires September 29, (Month/Day) | 2015 (Year) |

HF-0056 Revised 07/02 - All forms prior to this date are obsolete



State of Tennessee Health Services and Development Agency

Andrew Jackson, 9th Floor, 502 Deaderick Street, Nashville, TN 37243 www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

CONSENT CALENDAR

October 1, 2014

Allison Rogers, Vice President, Strategic Planning Mountain States Health Alliance 303 Med Tech Parkway, Suite #330 Johnson City, TN 37604

RE: Certificate of Need Application for Johnson City Medical Center -- CN1409-039

Dear Ms. Rogers:

This is to acknowledge the receipt of supplemental information to your application for a Certificate of Need for the relocation of Princeton Transitional Care's thirty-four (34) skilled nursing facility beds from James H. and Cecile C. Quillen Rehabilitation Hospital located at 2511 Wesley Street, Johnson City (Washington County), TN 37601 to Johnson City Medical Center located at 400 North State of Franklin Road, Johnson City (Washington County), TN 37604. The project cost is \$21,000.00.

Please be advised that your application is now considered to be complete by this office. Your application is being forwarded to the Tennessee Department of Health and/or its representative for review.

In accordance with Tennessee Code Annotated, §68-11-1601, et seq., as amended by Public Chapter 780, the 30-day review cycle for **CONSENT CALENDAR** for this project will begin on October 1, 2014. The first thirty (30) days of the cycle are assigned to the Department of Health, during which time a public hearing may be held on your application. You will be contacted by a representative from this Agency to establish the date, time and place of the hearing should one be requested. At the end of the thirty (30)-day period, a written report from the Department of Health or its representative will be forwarded to this office for Agency review within the thirty (30)-day period immediately following. You will receive a copy of their findings. The Health Services and Development Agency will review your application on November 19, 2014.

Any communication regarding projects under consideration by the Health Services and Development Agency shall be in accordance with T.C.A. § 68-11-1607(d):

- (1) No communications are permitted with the members of the agency once the Letter of Intent initiating the application process is filed with the agency. Communications between agency members and agency staff shall not be prohibited. Any communication received by an agency member from a person unrelated to the applicant or party opposing the application shall be reported to the Executive Director and a written summary of such communication shall be made part of the certificate of need file.
- All communications between the contact person or legal counsel for the applicant and the Executive Director or agency staff after an application is deemed complete and placed in the review cycle are prohibited unless submitted in writing or confirmed in writing and made part of the certificate of need application file. Communications for the purposes of clarification of facts and issues that may arise after an application has been deemed complete and initiated by the Executive Director or agency staff are not prohibited.

Should you have questions or require additional information, please contact me.

Sincerely,

Melanie M. Hill Executive Director

Melanie M. Hell /WF

MMH:mab

cc: Trent Sansing, CON Director, Division of Health Statistics



State of Tennessee Health Services and Development Agency

Andrew Jackson, 9th Floor, 502 Deaderick Street, Nashville, TN 37243 **www.tn.gov/hsda** Phone: 615-741-2364 Fax: 615-741-9884

MEMORANDUM

TO:

Trent Sansing, CON Director

Office of Policy, Planning and Assessment

Division of Health Statistics

Andrew Johnson Tower, 2nd Floor 710 James Robertson Parkway Nashville, Tennessee 37243

FROM:

Melanie M. Hill MMH/M

Executive Director

DATE:

October 1, 2014

RE:

Certificate of Need Application

Johnson City Medical Center -- CN1409-039

CONSENT CALENDAR

Please find enclosed an application for a Certificate of Need for the above-referenced project.

This application has undergone initial review by this office and has been deemed complete. It is being forwarded to your agency for a **CONSENT CALENDAR** thirty (30) day review period to begin on October 1, 2014 and end on November 1, 2014.

Should there be any questions regarding this application or the review cycle, please contact this office.

MMH:mab

Enclosure

cc: Allison Rogers, Vice President, Strategic Planning



LETTER OF INTENT TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY

| The Publication of Intent is | to be published in the _ | Johnson City Press (Name of Newspaper) | | which is a newspaper | |
|---|---|--|--|--|--|
| of general circulation in | | , Tennessee, o | n or before | September 10 , 2014, | |
| for one day. | (County) | | | (Month / day) (Year) | |
| (Name of App | 58-11-1601 <i>et seq.,</i> and y <u>Medical Center</u> Jicant) | the Rules of the Heal | th Services an an existing h (Facility Type | d Development Agency, nospital provider -Existing) | |
| owned by: Mountain 9 and to be managed by: | States Health Alliance self | _ with an ownership ty intends to file an | pe of <u>Not-for</u> application for | -Profit Corporation a Certificate of Need | |
| for the relocation Princetor Cecile C. Quillen Rehabil Medical Center at 400 Nor and no major medical equi Johnson City Medical Cen | itation Hospital at 2511 th State of Franklin Road pment will be purchased ter's licensed bed compl | Wesley Street, John d, Johnson City, TN, 3 l. There will be no cha ement. The estimated | son City, TN 7604. No new nge in Princeto | 37601 to Johnson City services will be initiated on Transitional Care's or | |
| The anticipated date of filin | | | V. D. C. | le de Otrada de Diagrafia de | |
| The contact person for this | s project is <u>Allison Ro</u> (Contact | | | ent, Strategic Planning (Title) | |
| who may be reached at: _ | Mountain States Health (Company Name) | n Alliance 303 | Med Tech Pa (Address) | rkway, Suite 330 | |
| Johnson City | TN | 37604 | | 2-3378 | |
| (City) | (State) | (Zip Code) | (Area Code | Phone Number) | |
| Allesee My (Signa | 1. Popers | 9/9/14 (Date) | RogersAM | 1@msha.com (E-mail Address) | |
| The Letter of Intent must be last day for filing is a Satu this form at the following a | rday, Sunday or State Ho | ceived between the first oliday, filing must occ | st and the tenth ar on the prece | day of the month. If the ding business day. File | |
| Health Services and Development Agency Andrew Jackson Building 500 Deaderick Street, Suite 850 Nashville, Tennessee 37243 | | | | | |
| | | | | | |
| The published Letter of Intencare institution wishing to op Development Agency no lat Agency meeting at which tapplication must file written of the application by the Agency | pose a Certificate of Need er than fifteen (15) days b he application is originally objection with the Health Se | application must file a velocities the regularly school school (B) A scheduled; and (B) | vritten notice wit eduled Health S Any other perso | th the Health Services and Services and Development on wishing to oppose the | |

ORIGINAL-SUPPLEMENTAL-2

Johnson City Medical Center CN1409-039





September 29, 2014

Ms. Melanie Hill Health Services and Development Agency Andrew Jackson Building, Ninth Floor 502 Deaderick Street Nashville, TN 37243

RE:

Certificate of Need Application CN1409-039

Mountain States Health Alliance/Johnson City Medical Center

Dear Ms. Hill:

Please find enclosed the original and two copies of Johnson City Medical Center's response to the Health Services and Development Agency's request for additional supplemental information related to Certificate of Need Application CN1409-039.

If you have any questions please do not hesitate to contact me at 423-302-3378. I look forward to working with you throughout this process.

Sincerely,

Allison M. Rogers

Vice-President, Strategic Planning

alliser M. Rogers

As requested, a description of how the proposed project supports the Five Principles of the State Health Plan is provided below.

Five Principles for Achieving Better Health

1. The purpose of the State Health Plan is to improve the health of Tennesseans.

RESPONSE: Enhancing and expanding post-acute care services in Washington County will help improve the health of Tennesseans in the service area. These services are essential to a well-developed healthcare delivery system and the partnerships MSHA is creating with HealthSouth and Signature HealthCARE will improve these service offerings and aid patients as they seek to obtain their optimal health status after an acute care stay.

2. Every citizen should have reasonable access to health care.

RESPONSE: The skilled nursing beds at JCMC will be available to all patients regardless of payment source or ability to pay.

3. The State's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies, and the continued development of the State's health care system.

RESPONSE: MSHA seeks to ensure its patients are the most appropriate lowest cost setting available. Post-acute care services have not traditionally been maximized to their full potential, often times leaving patients in an acute care setting perhaps longer than necessary. Developing partnership relationships with HealthSouth and Signature HealthCARE will enable MSHA to more completely leverage these resources which enhances economic efficiencies and creates a more seamless and effective health care delivery system in the local market.

Medicare has been adjusting its post-acute care payment structure to encourage care in the most-efficient, highest quality, and clinically appropriate sites and this project, with the additional resources and expertise MSHA sought out from HealthSouth and Signature HealthCARE, will do just that.

4. Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers.

RESPONSE: The more effective use of post-acute care services (including skilled nursing care) provides an opportunity to elevate quality of care for patients. MSHA and Signature HealthCARE will work hand-in-hand to reduce readmissions, ensure appropriate and consistent patient placement and utilization trends, all of which will improve the quality of care provided to the skilled nursing patients MSHA serves.

Ms. Melanie Hill September 29, 2014 Page 2

5. The state should support the development, recruitment, and retention of a sufficient and quality health care workforce.

RESPONSE: This project will support the existing workforce as Signature HealthCARE will bring additional resources and expertise to the staff delivering skilled nursing care. As a large operator of skilled nursing services, this is Signature's core business, and MSHA's skilled nursing workforce will benefit from this additional knowledge all leading to improved care and outcomes for this patient population.



AFFIDAVIT

| STATE OF TENNESSEE |
|---|
| COUNTY OFWashington |
| |
| |
| NAME OF FACILITY: <u>Johnson City Medical Center, Princeton Transitional</u> Care |
| |
| I, <u>Grace Pereira</u> , after first being duly sworn, state under oath that I am the |
| applicant named in this Certificate of Need application or the lawful agent thereof, that I |
| have reviewed all of the supplemental information submitted herewith, and that it is true, |
| accurate, and complete. |
| Plotelly Vice Provident |
| Signature/Title STATE OF STATE TENNESSEE |
| NO PUBLIC ST |
| OHO WINNGTON WIN |
| Sworn to and subscribed before me, a Notary Public, this the 29th day of Sptember, 2014, |
| witness my hand at office in the County of <u>(u) ash in a to n</u> , State of Tennessee. |
| NOTARY PUBLIC |
| My commission expires September 29 , 2015. |
| |

HF-0043

Revised 7/02

SUPPLEMENTAL - #1 -Copy-

Johnson City Medical Center

CN1409-039



September 29, 2014 10:30 am

September 24, 2014

Ms. Melanie Hill Health Services and Development Agency Andrew Jackson Building, Ninth Floor 502 Deaderick Street Nashville, TN 37243

RE: Certificate of Need Application CN1409-039

Mountain States Health Alliance/Johnson City Medical Center

Dear Ms. Hill:

Please find enclosed the original and two copies of Johnson City Medical Center's response to the Health Services and Development Agency's request for supplemental information related to Certificate of Need Application CN1409-039.

If you have any questions please do not hesitate to contact me at 423-302-3378. I look forward to working with you throughout this process.

Sincerely,

Allison M. Rogers

Vice-President, Strategic Planning

Illisen M. Rogers



10:30 am

1. Section A, Applicant Profile, Item 5 (Management/Operating Entity)

A non-binding letter of intent for management services from Signature Healthcare in Attachment 1 is noted. Please complete Item 5 of the application and resubmit page 4.

Please attach a copy of the draft management agreement that at least includes the anticipated scope of management services to be provided, the anticipated term of the agreement, and the anticipated management fee payment methodology and schedule.

Please describe the management entity's experience in providing management services for this type of facility, which is the same or similar to the applicant facility. Please also describe the ownership structure of the management entity.

RESPONSE: Item 5 has been revised and the updated page 4 of the original application is provided in Attachment 1 along with the requested draft management agreement.

Signature HealthCARE was founded in November 2007 through an acquisition of assets of Home Quality Management, Inc. Today Signatures owns and operates over 120 long-term health care and rehabilitation sites across ten states, including Kentucky, Indiana, Ohio, Tennessee, Virginia, Florida, Georgia, Alabama, Maryland and North Carolina. A growing number of Signature centers are earning five-star ratings from the Centers for Medicare & Medicaid Services which speaks to the quality of their care. Signature's vision is "to radically change the landscape of long term care forever" and its mission is that "our family-based organization will revolutionize the Long Term Care industry through a culture of resident-centered healthcare services, personalized spirituality, real quality of life initiatives and stakeholder education and empowerment, to earn the trust of every resident, family and community we serve."

Signature has been on the US New and World Report for Best Nursing Homes for the past four years (2011 – 2014). They are a very experienced post-acute care operator with services across a variety of areas including nursing center, rehabilitation centers, and home care, as well as several critical access hospitals.

The management entity will be a Delaware limited liability company and Signature HealthCARE, LLC owns 100% of that entity.

2. Section A, Applicant Profile, Item 13

New TennCare Managed Care Contract with the Bureau of TennCare will take effect January 1, 2015 with full statewide implementation for AmeriGroup,

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BlueCare Tennessee and United Healthcare. Please indicate the stages of contract discussions with each MCO for these new contracts.

RESPONSE: Mountain States Health Alliance already has existing contracts in place with BlueCare Tennessee and United Healthcare (AmeriChoice). MSHA is currently in contract discussions with AmeriGroup as there is not an existing contact already in place. These discussions are progressing and MSHA estimates it is about a third of the way to completing that contract agreement.

3. Section A, Project Description, Item I

The applicant has requested consent calendar for this project. Please address the reason consent calendar is being requested as it relates to each of the following: 1) Need, 2) Economic Feasibility, and the 3) Orderly development to health care.

What are the current and proposed plans for Franklin Transitional Care (13 beds).

RESPONSE: The request to be placed on the consent calendar was made because this project only involves the relocation of an existing service 4 miles away within the same city and the same county. Princeton Transitional Care is an existing service and the request is to relocate from its current location at Quillen Rehabilitation Hospital 4 miles away to Johnson City Medical Center. All entities are owned by Mountain States Health Alliance and in fact, Quillen Rehabilitation Hospital is technically a satellite campus of Johnson City Medical Center.

This project is not requesting any additional beds. The need for the project is based on internal operational opportunities to enhance the programmatic space and infrastructure at Quillen by moving PTC to Johnson City Medical Center. The economic feasibility is demonstrated by the minimal costs associated with the project. The orderly development to healthcare is demonstrated by the opportunity to enhance services at QRH by freeing up space currently used by PTC. Furthermore, PTC will continue to be available to the community within Johnson City Medical Center. This move 4 miles away will have no bearing on existing providers in the market.

Franklin Transitional Care's license is currently on inactive status. On September 10, 2014 the Board for Licensing Health Care Facilities met and granted FTC's request for its license to be on inactive status as MSHA and Signature HealthCARE develop an elder care campus that will include independent living, assisted living, and skilled nursing care. Once that campus is opened (targeting June 2016), the intent is to reactivate FTC's license and operate those beds on the new campus.

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4. Section B, Project Description, Item 1I.A. and II.B.

The applicant notes total construction cost of \$18,000 or \$1.26 PSF. However, the Project Costs Chart construction cost is \$10,500 which calculates to .73 cents cost per square foot. Please revise and submit a replacement page and also square footage and cost per square footage chart.

The notation of 13 FTC SNF beds in the table of page 9 as being suspended is noted. However, please clarify what is meant as being "suspended".

RESPONSE: The replacement page is provided in Attachment 2 as well as a revised square footage and cost per square footage chart.

The reference to FTC's status as suspended is related to their license being on inactive status as noted in response to supplemental question 3.

5. Section B, (Project Description) Item III (Plot Plan)

Please submit a revised plot plan that indicates the location of the applicant's structure and size (acres).

RESPONSE: A revised plot plan with the requested modifications is provided in Attachment 3.

6. Section C, Need Item 2.b. (Specific Criteria -Construction, Renovation, Expansion, and Replacement)

The Princeton Transitional Care Volume chart is noted. However, please clarify how the applicant expects to achieve 9,516 patient days in Year One while patient days have been in decline from 11,131 days in 2010 to 8,839 in 2014.

RESPONSE: Despite the decline in volumes in 2010 and 2011, Princeton Transitional Care has maintained volumes near 9,000 patient days for the past three years. The projection to grow patient days to 9,516 by Year 2 is based on the continued steady volumes plus focused resources within Johnson City Medical Center to ensure appropriate patient placement. As noted in the original application, Signature HealthCARE is a regional expert in this area with 123 locations over ten states. Some of the expertise they will bring includes resources to educate providers when skilled nursing care is a viable placement option. It is believed that there are some patients who are appropriate for skilled nursing care who are currently kept longer in the acute care setting. Appropriate education and close relations with patient resource management will ensure patients are placed in the appropriate setting as quickly as possible, especially when one resource option is available within the hospital walls.

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7. Section C, Need Item 4(a) 4.(b) (Specific Criteria -Construction, Renovation, Expansion, and Replacement)

The applicant has provided a practical need to change the proposed new site. As directed, please also provide some significant legal and financial need.

Please clarify if patient costs will increase as a result of the proposed relocation.

RESPONSE: The question states the applicant should provide practical, legal or financial need and therefore the most appropriate response, which is the practical need, was provided in the original application. There is a legal need in that once HealthSouth and MSHA complete their joint venture, that entity will purchase QRH and this essentially displaces PTC as PTC is not part of the purchase agreement.

Patient costs are not anticipated to increase as a result of the proposed relocation.

8. Section C, Need Item 2

Please indicate how the Certificate of Need process is related to the applicant's long-range development plans. If applicable, a brief background of previously approved CON projects related to this proposed project would be helpful.

Response: As described in the original application, this request to relocate PTC will enable MSHA to move forward with its long-range plan of enhancing its postacute care service offerings in Washington County. This long-range plan includes multiple phases over time, with the first occurring in the near term, which is the enhancement of rehabilitation services at QRH. In order to leverage the expertise that will be brought to QRH by the new relationship with HealthSouth, expansion of QRH's programmatic space and improvements to its infrastructure necessitate additional square footage which PTC currently occupies. By relocating PTC to JCMC, the first phase of the long-term plan to enhance post-acute services can proceed. The second phase of the long-term plan is to leverage expertise of MSHA's second post-acute partner in Washington County, which is Signature By engaging Signature in an agreement to manage PTC at its HealthCARE. proposed location within JCMC, MSHA will be able to leverage Signatures' expertise and resources to enhance the quality of care provided to this patient population. The third phase of the long-term plan will be the completion of an eldercare campus in Johnson City. Once that campus is developed, MSHA and Signature will seek to move all of the PTC and FTC skilled nursing care beds to the campus that will also contain independent living and assisted living housing options.

There have not been any previously approved CON projects directly related to this proposed project.

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9. Section C, Need Item 4.A

Your response to this item is noted. Using population data from the Department of Health, enrollee data from the Bureau of TennCare, and demographic information from the US Census Bureau, please complete the following table and include data for each county in your proposed service area.

RESPONSE: As requested, the table below has been populated with demographic data.

| Variable | Washington | Carter | Sullivan | Unicoi | Greene | Johnson | Service Area | Tennessee |
|---|------------|--------|----------|--------|--------|---------|--------------|-----------|
| Current Year (2014), Age 65+ | 22,459 | 11,419 | 32,916 | 4,198 | 14,442 | 3,829 | 89,263 | 1,010,447 |
| Projected Year (2018), Age 65+ | 26,106 | 12,830 | 36,290 | 4,791 | 16,650 | 4,279 | 100,946 | 1,174,947 |
| Age 65+, % Change | 16.2% | 12.4% | 10.3% | 14.1% | 15.3% | 11.8% | 13.1% | 16.3% |
| Age 65+, % Total (PY) | 19.0% | .22.0% | 22.8% | 25.2% | 22.7% | 22.6% | 21.6% | 16.8% |
| CY, Total Population | 130,206 | 57,945 | 158,366 | 18,685 | 71,346 | 18,628 | 455,176 | 6,545,936 |
| PY, Total Population | 137,400 | 58,274 | 159,393 | 19,003 | 73,260 | 18,952 | 466,642 | 6,961,361 |
| Total Pop. % Change | 5.5% | 0.6% | 0.7% | 1.7% | 2.7% | 1.7% | 2.5% | 6.4% |
| TennCare Enrollees | 20,213 | 6,895 | 28,715 | 3,644 | 13,214 | 4,009 | 76,690 | 1,241,028 |
| TennCare Enrollees as a % of Total Population | 15.5% | 11.9% | 18.1% | 19.5% | 18.5% | 21.5% | 16.8% | 18.9% |
| Median Age | 39 | 43.2 | 45.6 | 46.2 | 44.6 | 44.2 | 43.8 | 36.7 |
| Median Household Income | 42,995 | 32,908 | 40,025 | 35,415 | 35,613 | 30,063 | 36,170 | 44,140 |
| Population % Below Poverty Level | 17.3% | 22.8% | 16.9% | 22.1% | 22.5% | 25.4% | 19.2% | 17.3% |

Sources: Bureau of TennCare, US Census Bureau, TN Advisory Commission on Intergovernmental Relations, UT Center for Business and Economic Research

10. Section C. Need, Item 6

The tables showing utilization of the new facility are noted. Please provide a composite snapshot from the tables in the response by condensing the information into the table below.

RESPONSE: To clarify, this request is not for a new facility. It is to move an existing service (PTC) from QRH to JCMC. A composite snapshot of utilization for PTC is provided below.

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PTC - Historical and Projected Utilization* Includes Medicare/Medicaid certified beds

| Year | Licensed Beds | *Medicare- certified beds | SNF Medicare | Other skilled | Non skilled | Total ADC | Licensed Occupancy |
|--------------|------------------|------------------------------|-----------------|------------------|----------------|--------------|-----------------------|
| | | - | ADC | ADC | ADC | | % |
| 2011 | 34 | 34 | 17.8 | 10.1 | n/a | 27.9 | 81.9% |
| 2012 | 34 | 34 | 16.2 | 7.4 | n/a | 23.6 | 69.5% |
| 2013 | 34 | 34 | 16.5 | 8.0 | n/a | 24.5 | 72.1% |
| Year 1- 2016 | 34 | 34 | 16.2 | 8.2 | n/a | 24.4 | 71.9% |
| Year 2- 2017 | 34 | 34 | 17.3 | 8.8 | n/a | 26.1 | 76.7% |

11. Section C. Economic Feasibility 1 (Project Cost Chart)

The cost of any lease (building, land, and/or equipment) should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater. Please indicate the fair market value of the property as it relates to the proposed project.

Please clarify if there are any moving and set-up costs associated with the proposed relocation.

RESPONSE: There is not a lease option associated with this project. Signature HealthCARE will be managing the skilled nursing beds, but MSHA will continue to own the beds and the space. The moving and set-up costs are included in the contingency costs.

12. Section C. Economic Feasibility 3

The applicant notes total construction cost of \$18,000 or \$1.26 PSF. However, the Project Costs Chart construction cost is \$10,500 which calculates to .73 cents cost per square foot. Please revise and resubmit a replacement page.

Please refer to the following HSDA web-site and compare the renovation costs to approved hospital project construction costs between 2011-2013. http://tennessee.gov/hsda/applicants tools/docs/Construction%20Cost%20Per% 20Square%20Foot%20charts.pdf

RESPONSE: A revised page 27 is included in Attachment 4. There are very minimal costs associated with this project totaling \$18,000, of which \$10,500 is associated directly with construction (\$0.73 per square foot).

Based on the information provided at the HSDA website, these costs are very minimal compared to other hospital construction costs for projects approved between 2011 and 2013. While there are some slight refurbishments needed, the space at JCMC previously housed skilled nursing care in the past, so the project

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costs are considerably lower than other approved renovation projects. According to the HSDA summary information, the first quartile of renovated construction costs for hospital approved projects was \$107.15 per square foot. This project would only incur renovation construction costs of \$0.73 per square foot.

13. Section C. Economic Feasibility Item 4 (Historical Data Chart and Projected Data Chart)

The HSDA is utilizing more detailed Historical and Projected Data Charts. Please complete the revised information Historical and Projected Data Charts provided at the end of this requests for supplemental information. Please note that "Management Fees to Affiliates" should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. "Management Fees to Non-Affiliates" should also include any management fees paid by agreement to third party entities not having common ownership with the applicant. Management fees should not include expense allocations for support services, e.g., finance, human resources, information technology, legal, managed care, planning marketing, quality assurance, etc. that have been consolidated/centralized for the subsidiaries of a parent company.

There appears to be calculation errors in the Historical Data Chart for years 2012, 2013, and 2014. Please recheck all figures when transitioning figures to the new historical data chart located at the end of this document.

RESPONSE: Revised historical and projected data charts are provided in Attachment 5.

14. Section C. Economic Feasibility, Item 8

The applicant expects losses in Year One and Year Two of the proposed project. Please indicate when the applicant expects to break-even.

RESPONSE: It is projected to break-even in Year 3. At this time, it is anticipated PTC will be part of the new eldercare campus and it will be have complete access to all Signature HealthCARE's resources. While PTC is still at JCMC, there are some operational components that Signature will not be able to fully implement until the unit is part of the new eldercare campus that is in MSHA's long range plan.

15. Section C. Economic Feasibility 9

The breakdown of TennCare/Medicaid and Medicare revenue for 2014 is noted. However, please direct the response of the question to Year One of the proposed project and resubmit.

RESPONSE: The breakdown of revenue by payor for Year One of the proposed project is indicated in the table below.

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| Projected Year One PAYOR MIX | | otal Charges | Payor Mix by Charges |
|------------------------------|----|--------------|-------------------------|
| 01 MEDICARE | \$ | 7,928,233 | 35.98% |
| 02 MANAGED MEDICARE | \$ | 7,626,269 | 34.61% |
| 03 MEDICAID | \$ | 279,662 | 1.27% |
| 04 TENNCARE | \$ | 1,245,389 | 5.65% |
| 05 MANAGED CARE | \$ | 311,990 | 1.42% |
| 06 BLUE CROSS | \$ | 1,111,534 | 5.04% |
| 07 UNITED - RIVER VALLEY | \$ | 399,516 | 1.81% |
| 08 COMMERCIAL | \$ | 348,425 | 1.58% |
| 09 SELF PAY | \$ | 2,723,384 | 12.36% |
| 10 OTHER | \$ | 58,683 | 0.27% |
| TOTAL | \$ | 22,033,086 | 100% |

16. Section C. Orderly Development, Item 7 (b)

Please provide a copy of the latest Joint Commission survey.

RESPONSE: A copy of JCMC's latest Joint Commission survey is included in Attachment 6.

17. Other

RESPONSE: A copy of the signed affidavit is included in Attachment 7.

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ATTACHMENT 1 Revised Page 4 Draft Management Agreement

| 5. | Nam | e of Management/Operating En | titv (If A | pplica | able) | September 29, | 2014 |
|----------|----------|--|------------|--------|--------------|----------------------|------------|
| 0. | - rain | o or management operating =: | <u> </u> | ,-, | , | 10:30 am | |
| | Sign | nature HealthCARE, LLC | | | | (, i') (** 54) | |
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| | | et or Route | | | | County | |
| | L | ouisville | | Kentu | | 40299 Zip Code | |
| | City | | | | ate | • | |
| | | ALL ATTACHMENTS AT THI ERENCE THE APPLICABLE ITE | | | | | RAND |
| 6. | Lega | al Interest in the Site of the Insti | tution (| Check | k One) | | |
| | A. | Ownership | X | D. | Option to Lo | ease | |
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| | REF | ERENCE THE APPLICABLE ITE | M NUMI | BER (| ON ALL ATT | ACHMENTS. | |
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| | B. | Ambulatory Surgical Treatment | | J. | | Diagnostic Center | |
| | | Center (ASTC), Multi-Specialty | | K. | | | |
| | C. | ASTC, Single Specialty | | | Rehabilitati | | - |
| | D. | Home Health Agency | | M. | | | |
| | E. | Hospice | | N. | | ential Methadone | |
| | F. | Mental Health Hospital | | _ | Facility | | |
| | G. | Mental Health Residential | | Ο. | Birthing Ce | | |
| | | Treatment Facility | | Ρ. | | atient Facility | |
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| | D. | Initiation of Health Care | | | • | Increase, Decrease, | |
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| | | 68-11-1607(4) | | Н. | Change of | · | ~ |
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MANAGEMENT SERVICES AGREEMENT

THIS MANAGEMENT SERVICES AGREEMENT (the "Agreement") is made and entered into to be effective as of ______, 2014 (the "Effective Date"), by and between SIGNATURE HEALTHCARE CONSULTING SERVICES, LLC and SIGNATURE HEALTHCARE CLINICAL CONSULTING SERVICES, LLC (hereinafter, collectively called "Manager"), and MOUNTAIN STATES HEALTH ALLIANCE (hereinafter called "MSHA").

WITNESSETH:

WHEREAS, MSHA owns and operates a 34-bed skilled nursing unit known as the "Unit") currently located within Quillen Rehabilitation Hospital located at 2511 Wesley Street, Johnson City, TN 37601 (the "Current Location");

WHEREAS, it is anticipated that on or about January 1, 2015 MSHA will relocate the Unit to Johnson City Medical Center located at 400 N. State of Franklin Road, Johnson City, TN 37604 (the "New Location");

WHEREAS, the parties intend to enter into a Joint Venture arrangement to jointly own and operate a new facility licensed in Tennessee as both a skilled nursing facility and an assisted living facility (the "New Facility") to which the Unit would be transferred in the future (the "Second Relocation");

WHEREAS, the Manager has expertise in the management of skilled nursing facilities (the "Management Services"); and

WHEREAS, MSHA desires to utilize the Management Services provided by Manager in the operation of the Unit under the terms and conditions herein set forth; and

NOW THEREFORE, in consideration of the mutual promises and covenants herein contained, MSHA and Manager hereby agree as follows:

Section 1. MANAGEMENT APPOINTMENT

MSHA hereby appoints Manager to assist in operating, managing and supervising the Unit in the name, for the account, and on behalf of MSHA pursuant and subject to the terms and conditions set forth in this Agreement.

Section 2. DUTIES OF MSHA

2.1 <u>CONTROL RETAINED IN MSHA</u>. MSHA shall be the governing body of the Unit and shall be responsible for the operation of the Unit and the development of policies with respect to the Unit. Notwithstanding the authority granted to

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Manager herein, Manager and MSHA agree that MSHA shall at all times exercise control over the affairs of the Unit, shall establish general operating procedures to be carried out by Manager under this Agreement, and shall be accountable and responsible for all medical, professional and ethical affairs of the Unit.

- 2.2 <u>OWNERSHIP</u>. MSHA is and shall continue to be the owner and holder of all licenses, contracts, provider agreements and accreditation certificates which the Unit has or shall obtain, and shall continue to be the "provider" within the meaning of all third-party contracts for the Unit.
- MSHA shall, at all times, be ultimately MSHA'S RESPONSIBILITIES. 2.3 responsible for the governing of the Unit and for the general direction of the MSHA shall request and receive activities of Manager under this Agreement. recommendations regarding the administrative operations of the Unit from Manager, and shall duly consider all such recommendations concerning administrative operations at the Unit prior to adopting any operational policies affecting the administrative operations or functions of the Unit. MSHA shall maintain at all times during the term(s) of this Agreement all state, federal, and privately-issued licenses, permits, certifications, Certificates of Need, approvals, and accreditations required in connection with the management and operation of the Unit. Further, MSHA shall, at all times, be ultimately responsible for ensuring that the Unit satisfies all conditions of participation for Medicare enrollment and any other requirements for participation in any governmental or nongovernmental payor program.
- 2.4 <u>DATA AND INFORMATION</u>. MSHA shall provide to Manager, without charge, such necessary and relevant data and information in MSHA's possession as shall be reasonably required or requested by Manager in order to enable Manager to perform its duties under this Agreement.

Section 3. <u>DUTIES OF MANAGER</u>

- 3.1 <u>MANAGER'S RESPONSIBILITIES</u>. Manager shall perform, and MSHA grants Manager the express authority to perform, the services set forth in this Agreement. Manager shall manage and supervise the Unit.
- 3.2 <u>REPORTS</u>. Manager shall cause to be delivered to MSHA monthly reports on the financial condition of the Unit and quarterly written progress reports summarizing Manager's management actions and results, or other management information as to the status and condition of the Unit and such other reports as may be reasonably requested.

3.3 SPECIFIC SERVICES TO BE PROVIDED

3.3.1 <u>FULL-TIME ADMINISTRATION</u>. Manager shall recruit an experienced, qualified, on-site Administrator which will be employed by the Manager. The salary and benefits of the Administrator, if employed by Manager, will be reimbursed by MSHA and are in addition to the Management Fee. Or in the alternative, Manager shall assist MSHA with recruiting an experienced, qualified, on-site Administrator which will be employed by MSHA.

3.3.2 FINANCIAL CONSULTING SERVICES. Manager shall provide:

- A. assistance with general ledger accounting services,
- B. assistance with budget preparation, including staffing standards,
- C. routine monthly analysis of financial performance, and
- D. assistance in analysis of lease/purchase arrangements.

3.3.3 <u>CLINICAL CONSULTING SERVICES</u>. Manager shall provide:

- A. assistance with determining staffing and productivity standards,
- B. resources for leadership and management education,
- C. assistance with accreditation readiness, and
- D. assistance with operational issues.
- 3.3.4 PRODUCTIVITY STANDARDS AND REPORTING SYSTEMS. Staffing standards will be available for the Unit.
- 3.3.5 SHARED PURCHASING OF SELECTED ITEMS AND ASSISTANCE IN PURCHASING OF MAJOR MOVABLE EQUIPMENT. Manager will assist the Unit in purchasing supplies and equipment from certain vendors and/or participating as a purchaser in purchasing group programs as appropriate, subject to compliance with the program's policies and procedures.
- 3.3.6 ON-SITE CONSULTATION AND TECHNICAL ASSISTANCE.

 Manager will provide the Unit access to preferred providers and consultants for requested projects or services not covered by this Agreement subject to successful negotiation of fees between the consultant and the Unit.



- 3.3.7 <u>CONTRACT REVIEW AND SPECIAL STUDIES</u>. Manager will periodically assist in the review of Unit service contracts to seek ways to lower costs and improve services.
- 3.3.8 <u>QUALITY ASSESSMENT</u>. Manager will periodically assist in evaluating the quality of administrative and clinical services in the Unit and will seek ways to measure and improve the delivery of those services.
- 3.4 <u>EMPLOYEES</u>. The Unit employees will be employed by MSHA throughout the term of this Agreement. This Agreement shall not affect the compensation structure of individuals employed by the Unit without approval by MSHA. The Manager may recommend compensation programs for all Unit employees which if implemented shall be administered according to the wage and salary program approved by MSHA. Manager may make recommendations about the hiring, discipline and termination of Unit employees which if implemented by MSHA shall be administered according to the employment policies approved and adopted by MSHA.
- 3.5 <u>LICENSES AND SURVEYS</u>. Where applicable, Manager will provide assistance in preparing for license inspections and surveys by federal and state regulatory agencies and/or any other regulatory agencies having jurisdiction over the operations of the Unit.
- 3.6 <u>RATES AND CHARGES</u>. Manager will make recommendations to MSHA as to rates and charges for services provided by Unit. MSHA is the approval authority for Unit rates and charges.
- 3.5 <u>POLICIES AND PROCEDURES</u>. Subject to approval of MSHA, Manager shall recommend policies and procedures, or updates to policies and procedures for the Unit.
- 3.6 GOVERNMENT REGULATIONS. Manager will assist the Unit in complying with requirements of statutes, ordinances, laws, rules, regulations or orders of governmental or regulatory bodies having jurisdiction over the Unit. Notwithstanding the foregoing or anything herein to the contrary, MSHA retains ultimate control and authority for ensuring that the Unit satisfies all conditions for participation in any governmental or nongovernmental payor program, including but not limited to Medicare.
- 3.7 <u>INFORMATION AND TECHNOLOGY SYSTEMS</u>. Manager will install and implement certain information technology systems in the Unit to assist the Unit with management and productivity of the Unit.
- 3.8 <u>RELATIONSHIP BETWEEN MANAGER AND THE UNIT</u>. No action taken by either party, or its officers, employees, or agents pursuant to this Agreement,



shall be deemed to create any partnership, joint venture, association or syndicate between the parties, or shall be deemed to confer upon either party, any express or implied right or authority to create any obligation or responsibility on behalf of or in the name or the other party except as set forth in this Agreement. The parties to this Agreement are independent entities, contracting with each other solely for the purpose of carrying out the terms and conditions of this Agreement. Neither of the parties hereto, nor any of their respective employees or agents, shall be construed to be the agent or representative of the other. Notwithstanding the authority granted herein to Manager, the parties agree that MSHA shall retain the authority to direct the health professional and ethical aspects of the Unit's operation. Without limiting the foregoing, in no event will Manager's employees be deemed employees of MSHA, and as such shall not be entitled to any employee benefits including vacation pay, sick leave, retirement benefits, Social Security, Workers' Compensation, or disability or unemployment insurance benefits that may be provided to MSHA's employees, if any. The terms of this Section shall take precedence over any inconsistent terms that may be found in the policies, procedures, employee benefit plans, or otherwise of MSHA as presently existing or as amended.

Section 4. COMPENSATION AND FEES

- 4.1 <u>MANAGEMENT FEE AND TECHNOLOGY FEE</u>. The fees for the management services payable to Manager during the term of this Agreement shall be as follows:
 - The management fee shall be payable monthly in an amount equal to five percent (5%) of the total Unit Revenues for the month in which the management services are performed; provided, however, that in no event shall a monthly management fee be less than Five Thousand Dollars (\$5,000) regardless of the Unit Revenues for that or any preceding month (the "Management Fee"). The management fee shall be payable to Manager on or before the fifteenth (15th) day of each calendar month following the month in which the management services are performed during the term of this Agreement. As used herein, the term "Unit Revenues" means the rents, rent equivalents, fees for services, and other occupancy fees, moneys payable as damages pursuant to any residency agreement or in lieu of rent or rent equivalents, royalties (including all oil and gas or other mineral royalties and bonuses), income, receivables, receipts, revenues, deposits (including security, utility and other deposits), accounts, cash, issues, profits, charges for service rendered during the term of this Agreement, and other consideration of whatever form or nature received by or paid to or for the account of or benefit of the Unit or its agents or employees from any and all sources arising from or attributable to the Unit and/or the use and occupancy thereof during the term of this Agreement, including any obligations now existing or hereafter arising or created out of the lease, sublease, license, concession or other grant of the right of the use and occupancy of property or rendering of services by or

on behalf of the Unit and proceeds, if any, from business interruption or other loss of income insurance.

4.1.2 For the first twelve (12) months of this Agreement, MSHA shall pay to Manager an additional Five Thousand Dollars (\$5,000) per month to Manager to defray the Manager's costs of installing certain information technology systems and equipment in the Unit at the New Location (the "Technology Fee").

Section 5. <u>TERM; TERMINATION</u>

- 5.2 <u>TERMINATION FOR CAUSE</u>. Either MSHA or Manager may terminate this Agreement at any time for cause upon written notice thereof to the other.
 - 5.2.1 MSHA shall have cause for termination:
 - A. If Manager shall default in the performance of any material covenant, agreement, term or provision of this Agreement to be kept, observed or performed by Manager and such default shall continue for a period of sixty (60) days after written notice to Manager stating the specific default; or
 - B. If Manager shall apply for or consent to the appointment of a receiver, trustee or liquidator of Manager or of all or a substantial part of its assets, file a voluntary petition in bankruptcy or admit in writing its inability to pay its debts as they become due, make a general assignment for the benefit of creditors, file a petition or an answer seeking reorganization or arrangement with creditors, or take advantage of any insolvency law, or if an order, judgment or decree shall be entered by a court of competent jurisdiction, on the application of a creditor, adjudicating Manager as bankrupt or insolvent, or approving a petition seeking reorganization of Manager or appointment of a receiver, trustee or liquidator of Manager of all or a substantial part of its assets.
 - 5.2.2 MANAGER shall have cause for termination:

- A. If MSHA shall default in the performance of any material covenant, agreement, term or provision of this Agreement to be kept, observed or performed by MSHA and such default shall continue for a period of sixty (60) days after written notice to MSHA stating the specific default; or
- B. If any license, permit, accreditation, or approval required, in the opinion of Manager, for the operation of the Unit cannot be obtained or is at any time suspended, terminated or revoked; or
- C. If any amount payable to Manager or to any affiliate of Manager for any Management Services or other services provided to MSHA shall remain unpaid for a period of sixty (60) days.

Section 6. RECORDS; CONFIDENTIALITY

- 6.1 <u>CONFIDENTIALITY OF RECORDS</u>. Manager will exercise reasonable care to protect the confidentiality of patient records and other confidential records of MSHA, and to comply with applicable Federal, State and local laws and regulations relating to the records of MSHA.
- ACCESS TO BOOKS AND RECORDS OF SUBCONTRACTORS. Pursuant to 6.2 Section 1861(v)(1)(I) of the Social Security Act, Manager (subcontractor) agrees to make available, upon written request from the Secretary or Comptroller General, or any of their duly authorized representatives, until the expiration of four (4) years after the furnishing of services provided under this contract, the contract, books, documents and records of subcontractor that are necessary to verify the nature and extent of the contract costs which are \$10,000 or more over a twelve (12) month period. If Manager carries out any of the duties under this contract through a subcontract with a related organization, with a value or cost of \$10,000 or more over a twelve (12) month period, such subcontract shall contain a clause to the effect that until the expiration of four (4) years after the furnishing of such services pursuant to the subcontract, the related organization shall make available, upon written request from the Secretary or Comptroller General, or any of their duly authorized representatives, the subcontract, books, documents and records of such organization that are necessary to verify the nature and extent of such costs.
- 6.3 <u>HIPAA/HITECH ACKNOWLEDGEMENT</u>. The parties will enter into a Business Associate Agreement in order to ensure that Manager's access to and use or disclosure of any and all information relating to Unit's patients (i) complies fully with the requirements of the Health Insurance Portability and Accountability Act of 1996, as amended, and regulations promulgated thereto by the Department of Health and Human Services ("HHS") and codified at 45 C.F.R. Parts 160 and



164, as amended from time to time (the statute and regulations are collectively referred to as "HIPAA") and (ii) complies fully with the requirements of the Health Information Technology for Economic and Clinical Health Act, Title XIII of the American Recovery and Reinvestment Act of 2009, and related regulations promulgated by HHS, as amended from time to time (the "HITECH Act").

Section 7. [Intentionally omitted.]

Section 8. INSURANCE.

MSHA, at its expense, will maintain or cause to be maintained with an insurer, appropriate insurance coverage, including but not limited to: directors' and officers' liability (limits which shall meet state requirements but shall not be less than \$1,000,000 per occurrence and \$3,000,000 in the aggregate), professional liability (limits which shall meet state requirements but shall not be less than \$1,000,000 per occurrence and \$3,000,000 in the aggregate), worker's compensation, fidelity bonding (limits which shall not be less than \$1,000,000), employment practices liability (limits which shall meet state requirements but shall not be less than \$1,000,000 per occurrence and \$3,000,000 in the aggregate), automobile liability (limits which shall not be less than \$1,000,000), property damage (which shall cover replacement costs) and general comprehensive liability (limits which shall meet state requirements but shall not be less than \$1,000,000 per occurrence and \$3,000,000 in the aggregate) and umbrella policies (limits which shall not be less than \$5,000,000). All insurance maintained pursuant to this Section shall: (a) name Manager and its agents and employees as additional named insureds; (b) provide that no cancellation thereof or material change therein shall be effective until at least thirty (30) days after receipt by Manager of written notice to such effect; and (c) be satisfactory in all respects to Manager. Promptly upon the execution of this Agreement and annually within thirty (30) days following the end of the policy year, MSHA will deliver or cause to be delivered to Manager certificates of the insurer as to the existence of all insurance policies, limitations of liability and conditions, or in lieu of such certificates, copies of originals of all such insurance policies, together with evidence that such policies are in good standing and in full force and effect, and copies of Certificates of Insurance confirming Manager as an additional insured on the policies.

Section 9. INDEMNIFICATION.

MSHA hereby agrees to indemnify and hold harmless Manager, its successors and assigns, to the fullest extent permitted by law, from and against all claims for damages, losses and expenses, including but not limited to attorneys' fees, for actions, causes of action, suits, debts, sums of money, complaints or demands of any kind or description, arising out of or resulting from: (a) the operation of this Agreement; (b) the operation of the Unit; (c) any negligent, intentional, or unlawful act or omission of MSHA or its agents (excluding Manager or its agents, employees, subcontractors, or representatives), employees, subcontractors, or representatives; and (d) any material representation, breach of any warranty or non-fulfillment of any covenant, agreement, or other obligation of



MSHA or any of its agents (excluding Manager or its agents, employees, subcontractors, or representatives), employees, subcontractors or representatives under this Agreement or otherwise; provided, however, that such claims, damages, losses and expenses are not solely caused by the gross negligence or intentional misconduct on the part of Manager.

Section 11. ARBITRATION.

Any dispute arising out of or related to this Agreement shall be settled by arbitration, which determination shall be binding on all parties for all purposes under this Agreement. In such arbitration, one arbitrator shall be appointed by MSHA, and one by Manager, and a third by the two arbitrators so appointed. The arbitration shall be conducted at such place as the parties may agree, in accordance with the rules of the American Arbitration Association, except that the decisions of the arbitrators shall be based solely on written submissions and oral presentations of the parties and witnesses called by them and such decision shall be rendered within sixty (60) days of the date of the arbitration. Each of Manager and MSHA shall pay fifty percent (50%) of the costs and expenses of such arbitration, and each will pay its own attorneys' fees and expenses.

Section 12. MISCELLANEOUS PROVISIONS.

12.1 <u>NOTICES</u>. All notices permitted or required under this Agreement shall be deemed given when in writing and delivered personally or deposited in the United States mail, postage prepaid, return receipt requested, delivered to the other party at the address set forth below or such other address as the party may designate in writing:

| To Manager: | , LLC |
|-------------|--|
| O . | 12201 Bluegrass Parkway |
| | Louisville, KY 40299 |
| | Attn: |
| | Signature Healthcare, LLC |
| | 12201 Bluegrass Parkway |
| | Louisville, KY 40299 |
| | Attn: Sandra Adams, VP and General Counsel |
| To MSHA: | |
| | · · · · · · · · · · · · · · · · · · · |
| | Attn: |

12.2 <u>FORCE MAJEURE</u>. Manager shall not be deemed to be in violation of this Agreement if it is prevented from performing or hindered in its performance of its obligations hereunder for any reason beyond its control, including, but not limited to, strikes, shortages, lack of MSHA financial resources, or any statute, regulation



or rule now or hereafter adopted by any federal, state or local government, or any Unit thereof, now or hereafter in force.

- 12.3 COMPLIANCE WITH MEDICARE FRAUD AND ABUSE AND OTHER LAWS. The parties enter into this Agreement with the intent of conducting their relationship in full compliance with any applicable federal, state, and local law or regulations governing this type of Agreement, including without limitation Sections 1107(a), 1128B, and 1877 of the Social Security Act and any regulations promulgated thereunder. Each party hereto represents that it has never been suspended, limited, restricted, or excluded from participating in the Medicare and Medicaid programs. If any legislation, regulation, or government policy is passed or adopted, the effect of which would cause either party to be in violation of such laws due to the existence of any provisions of this Agreement, then the parties agree to negotiate in good faith to reform the Agreement to comply with such laws.
- 12.4 <u>ASSIGNMENT</u>. Neither party shall assign this Agreement or subcontract for its services hereunder without the prior written consent of the other which consent shall not be unreasonably withheld.
- 12.5 <u>AMENDMENTS</u>. No amendments or modifications to this Agreement shall be valid and binding unless in writing and executed in the same manner as this Agreement.
- 12.6 <u>GOVERNING LAW</u>. This Agreement shall be governed by the laws of the State of Tennessee.
- 12.7 <u>ENTIRETY OF AGREEMENT</u>. No prior stipulation, agreement or understanding, verbal or otherwise, of the parties or their agents shall be valid or enforceable unless referenced or embodied in the provisions of this Agreement. This Agreement shall be binding on, and inure to the benefit of the parties hereto and their respective representatives, successors and permitted assigns.
- 12.8 <u>CONSTRUCTION</u>. Whenever the singular or plural number, or masculine, feminine or neuter gender is used herein, it shall equally include the other, and the terms and provisions of this instrument shall be construed accordingly. The use of the word "party" shall mean to include either Manager or MSHA, as context dictates, and the use of the term "parties" shall mean to include both Manager and MSHA. The language in all parts of this Agreement shall be construed according to its fair meaning and not for or against either party hereto. The normal rule of construction against the drafting party shall not be employed in the interpretation of this Agreement.
- 12.9 <u>WAIVER</u>. The failure on the part of either party to insist in any instance upon the strict observance by the other of any provision or term of this Agreement shall not be construed as a waiver of that or any other provision of this Agreement.



- 12.10 <u>SEVERANCE</u>. Should any part of this Agreement be invalid or unenforceable, such invalidity or unenforceability shall not affect the validity and enforceability of the remaining portions.
- 12.11 <u>ELECTRONIC RECORD KEEPING</u>. The parties agree and acknowledge that this Agreement may be kept in electronic form and that an electronic version of this Agreement will be just as valid and enforceable as the original.

[Signature pages to follow.]



IN WITNESS WHEREOF, Manager and MSHA have executed this Agreement as of the day and year first above written.

| MOUNTAIN STATES HEALTH ALLIANO | Œ |
|--------------------------------|-----|
| By | |
| Title | |
| | |
| | LLC |
| By | |
| Title | |

September 29, 2014 10:30 am

ATTACHMENT 2 Revised Page 9 Revised Page 10 (Square Footage and Cost Per Square Footage Chart)

square footage. The total cost per square foot should provide a square footage. The total cost per square foot should provide a square footage. Other facility projects need only complete Parts B.-E. Please also discuss and justify the cost per square foot for this project.

If the project involves none of the above, describe the development of the proposal.

The proposed project involves the relocation of a 34-bed skilled nursing unit, Princeton Transitional Care, from James H. and Cecile C. Quillen Rehabilitation Hospital to Johnson City Medical Center. The proposed location is on the third floor of JCMC. There are currently two nursing units, 3200 and 3300, which would be designated skilled nursing facility space. This area previously housed skilled nursing beds (Franklin Transitional Care) so the area already contains a distinguishable barrier between the skilled nursing unit and rest of the acute care hospital. This project only involves minor refurbishments (patching and painting) and minor renovations to the day room to ensure compliance with current regulatory statutes.

The minor refurbishments to the facility would not require temporary relocation for any patients due to the currently lower census of Johnson City Medical Center.

The proposed project will not initiate any new services or addition of major medical equipment (as defined by T.C.A. § 68-11-1601 et seq.) and will cost \$21,000. The total construction cost will be minimal at \$10,500 or \$0.73 a square foot.

B. Identify the number and type of beds increased, decreased, converted, relocated, designated, and/or redistributed by this application. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the existing services.

There will be no change in the total number of beds within Washington County. This request is to relocate 34 SNF beds from their current location within QRH to JCMC.

| | Current Bed Complement | Proposed Bed Complement | | | | | | |
|-----------------------------|---|---|--|--|--|--|--|--|
| Johnson City Medical Center | | | | | | | | |
| Main Campus | 501 Acute Care Beds 13 FTC SNF Beds* | 501 Acute Care Beds 13 FTC SNF Beds** RELOCATE: 34 PTC SNF Beds | | | | | | |
| Woodridge Campus | 84 Psychiatric Beds | 84 Psychiatric Beds | | | | | | |
| Quillen Campus | 26 Rehabilitation Beds | 26 Rehabilitation Beds | | | | | | |
| | 34 PTC SNF Beds | A 10 A 10 A 10 A 10 A 10 A 10 A 10 A 10 | | | | | | |
| Total JCMC | 658 Beds | 658 Beds | | | | | | |
| Franklin Woods Con | nmunity Hospital | | | | | | | |
| | 80 Acute Care Beds | 80 Acute Care Beds | | | | | | |
| Total Washington Co | ounty Beds | | | | | | | |
| | 738 Beds | 738 Beds | | | | | | |

^{*}currently suspended

^{**}continue to suspend

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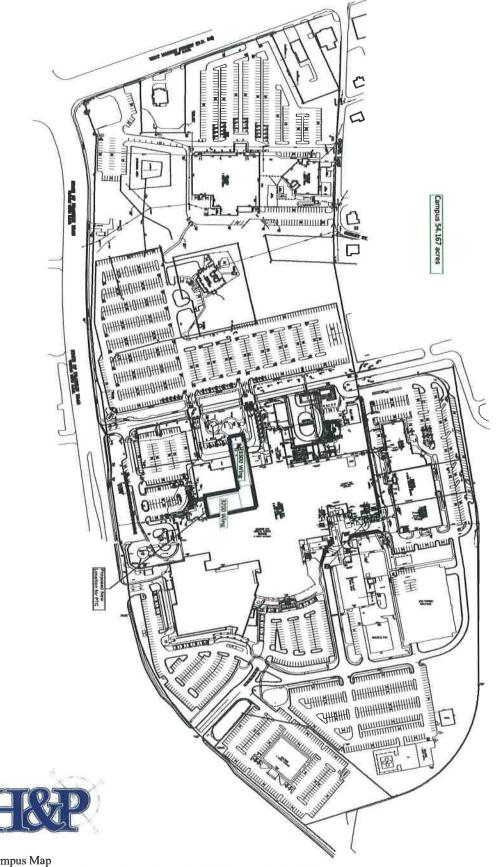
SQUARE FOOTAGE AND COST PER SQUARE FOOTAGE CHART

| an | U a | 0:3 | 1 | , , | | | | | | | |
|----------------|----------------------|-----------|-------------------|-----|---------------------|-----------|----------------|----------------|------------------------------------|----------------|--------------|
| | A. Unit / Department | | 3200 and 3300 SNF | | B. Unit/Depart. GSF | Sub-Total | C. Mechanical/ | Electrical GSF | D. Circulation | /Structure GSF | E. Total GSF |
| | Existing | Location | QRH | | | | | | | | QRY. |
| | Existing | SF | 13,100 | | | | | | | | 13,100 |
| | Temporary | Location | N/A | | | | | | | | N/A |
| Proposed | Final | Location | JCMC | | | | | | | | JCMC |
| Prop | Squa | Renovated | 14,334 | | | | | | | | 14,334 |
| Proposed Final | Square Footage | New | 0 | | | | | | | | 0 |
| _ | Ф | Total | 14,334 | | | | | | | | 14,334 |
| | | Renovated | \$0.73 | | | | | | | | \$0.73 |
| Proposed Final | Cost/ SF | New | \$0 | | | | | | | | \$0 |
| <u>w</u> | | Total | \$0.73 | | | | | | | | \$0.73 |

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ATTACHMENT 3 Revised Plot Plan

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JCMC Campus Map

Combination of survey & design jobs performed by TH&P, Inc. for MSHA

Date: 7/28/14 Scale: 1"=100'

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ATTACHMENT 4
Revised Page 27

2. Identify the funding sources for this project.

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Please check the applicable item(s) below and briefly summarize how the project will be financed. (Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.)

A. Commercial loan—Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;
 B. Tax-exempt bonds—Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;
 C. General obligation bonds—Copy of resolution from issuing authority or minutes from the appropriate meeting.
 D. Grants—Notification of intent form for grant application or notice of grant award; or
 X E. Cash Reserves—Appropriate documentation from Chief Financial Officer.
 F. Other—Identify and document funding from all other sources.

The project will be funded from existing cash reserves from operations at Mountain States Health Alliance. Documentation of the availability of funds to complete the project is provided in the attachments.

3. Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services and Development Agency.

The total construction cost of the proposed project is minimal at \$10,500 in refurbishment and minor renovation cost. The renovations will focus on expanding the day room space needed to meet the standards required for a 34-bed skilled nursing facility as this space previously housed a smaller skilled nursing unit. The project will impact 14,334 square feet at a minimal cost of \$0.73 per square foot.

4. Complete Historical and Projected Data Charts on the following two pages--Do not modify the Charts provided or submit Chart substitutions! Historical Data Chart represents revenue and expense information for the last three (3) years for which complete data is available for the institution. Projected Data Chart requests information for the two (2) years following the completion of this proposal. Projected Data Chart should reflect revenue and expense projections for the Proposal Only (i.e., if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility).

The following two pages contain the Historical Data Chart and the Projected Data Chart. The historical data chart profiles JCMC's performance between FY2012 and FY2014. The projected data chart profiles PTC's estimated performance for the first two complete fiscal years of operation (FY2016 and FY2017).

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ATTACHMENT 5 Revised Historical Data Chart Revised Projected Data Chart

HISTORICAL DATA CHART

Give information for the last *three* (3) years for which complete data are available for the facility or agency. The fiscal year begins in July.

September 29, 2014

The fiscal year begins in July.

Johnson City Medical Center:

| • | | | Year FY2012 | Year FY2013 | Year FY2014 |
|-------|--------------|--|----------------------|----------------------|----------------------|
| A. | Util | ization Data (adjusted patient days) | 221,073 | 221,457 | 211,147 |
| B. | Rev | enue from Services to Patients | | | |
| | 1. | Inpatient Services | 1,229,828,177 | 1,225,715,583 | 1,238,569,182 |
| | 2. | Outpatient Services | 634,541,928 | 650,543,168 | 728,794,601 |
| | 3. | Emergency Services | 63,778,997 | 70,645,530 | 75,596,172 |
| | 4. | Other Operating Revenue (Specify) | 7,159,508 | 12,167,594 | 10,581,953 |
| | | Gross Operating Revenue | <u>1,935,308,611</u> | 1,959,071,875 | 2,053,541,908 |
| C. | Dec | luctions from Gross Operating Revenue | | | |
| | 1. | Contractual Adjustments | 1,387,754,477 | 1,445,591,862 | 1,551,293,701 |
| | 2. | Provision for Charity Care | 102,833,165 | 92,919,891 | 90,618,603 |
| | 3. | Provisions for Bad Debt | <u>2,231,217</u> | 2,459,181 | 5,863,379 |
| | | Total Deductions | <u>1,492,818,859</u> | <u>1,540,970,934</u> | <u>1,647,775,683</u> |
| NE' | Г ОР | PERATING REVENUE | 442,489,752 | 418,100,940 | 405,766,225 |
| D. | Ope | erating Expenses | | | |
| | 1. | Salaries and Wages | 170,489,724 | 164,639,656 | 153,036,891 |
| | 2. | Physician's Salaries and Wages | | 36,981 | 51,517 |
| | 3. | Supplies | 93,918,752 | 88,161,682 | 88,675,272 |
| | 4. | Taxes | | | |
| | 5. | Depreciation | 22,633,162 | 24,008,010 | 20,332,137 |
| | 6. | Rent | | 920 | |
| | 7. | Interest, other than Capital | | 2,020,515 | 1,659,832 |
| | 8. | Management Fees: | | | |
| | | a. Fees to Affiliates | \leftarrow | | / |
| | | b. Fees to Non-Affiliates | 97.040.490 | 06 265 062 | 07.020.050 |
| | 9. | Other Expenses – <u>Fees, Utilities, Other</u> | 87,840,480 | 96,365,062 | 97,938,058 |
| | | Total Operating Expenses | <u>374,882,118</u> | 375,231,906 | 361,693,707 |
| E. | Otl | ner Revenue (Expenses) – Net (Specify) | | <u> </u> | <u>~</u> |
| NE | T OI | PERATING INCOME (LOSS) | 67,607,634 | 42,869,034 | 44,072,518 |
| F. | | pital Expenditures | | 12,000,000 | |
| | 1. | Retirement of Principal | 212,049 | 229,830 | 238,712 |
| | 2. | Interest | 16,555,757 | 13,340,567 | 14,076,703 |
| | | Total Capital Expenditures | 16,767,806 | 13,570,397 | 14,315,415 |
| TATES | т О Т | | | | |
| | | PERATING INCOME (LOSS) PAPITAL EXPENDITURES | 50,839,828 | 29,298,637 | 29,757,103 |

PROJECTED DATA CHART

September 29, 2014

Give information for the two (2) years following the completion of this proposal. The fiscal year begins in July.

Princeton Transitional Care Unit:

| 171110 | ewn | Transmona Care Ona. | Year FY2016 | Year FY2017 |
|--------|-------|---|-------------|----------------------|
| A. | Utili | zation Data (patient days) | 8,921 | 9,516 |
| В. | Reve | enue from Services to Patients | | |
| | 1. | Inpatient Services | 22,033,086 | 23,502,617 |
| | 2. | Outpatient Services | | |
| | 3. | Emergency Services | | |
| | 4. | Other Operating Revenue (Specify) | | |
| | | Gross Operating Revenue | 22,033,086 | 23,502,617 |
| C, | Ded | uctions from Gross Operating Revenue | | |
| | 1. | Contractual Adjustments | 16,963,511 | 18,075,572 |
| | 2. | Provision for Charity Care | 740,563 | 792,783 |
| | 3. | Provisions for Bad Debt | 624,654 | 668,700 |
| | | Total Deductions | 18,328,729 | 19,537,055 |
| NET | OPE | ERATING REVENUE | 3,704,357 | 3,965,562 |
| D. | Ope | rating Expenses | | |
| | 1. | Salaries and Wages | 2,754,971 | 2,938,718 |
| | 2. | Physician's Salaries and Wages | - | : E |
| | 3. | Supplies | 729,559 | 778,218 |
| | 4. | Taxes | | - |
| | 5. | Depreciation | | |
| | 6. | Rent | <u> </u> | (<u> </u> |
| | 7. | Interest, other than Capital | | - B |
| | 8. | Management Fees: | | |
| | | a. Fees to Affiliates | 120.494 | 128 120 |
| | 9. | b. Fees to Non-Affiliates Other Expenses – <u>Indirect Expenses</u> | 129,484 | 138,120 |
| | ٠. | Total Operating Expenses | 232,111 | 248,256 4,103,312 |
| E. | Othe | er Revenue (Expenses) Net (Specify) | 3,846,124 | 4,105,512 |
| | | ERATING INCOME (LOSS) | (141,767) | (137,750) |
| F. | | ital Expenditures | (141,707) | (157,730) |
| 2 | 1. | Retirement of Principal | | × |
| | 2. | Interest | | |
| | | Total Capital Expenditures | | |
| | | ERATING INCOME (LOSS) PITAL EXPENDITURES | (141,767) | (137,750) |

September 29, 2014

HISTORICAL DATA CHART-OTHER EXPENSE 30:30 am

| OTHER EXPENSES CATEGORIES | | Year <u>2012</u> | | Year 2013 | | Year <u>2014</u> |
|---------------------------|--------------------------|------------------|-----|------------|-----|------------------|
| 1 | Fees | \$ 48,782,269 | \$ | 55,836,232 | \$ | 58,798,969 |
| 2 | Utilities | \$ 5,490,333 | _\$ | 5,171,544 | \$ | 5,246,550 |
| 3 | Amortization | \$ 46,949 | \$ | 47,667 | \$ | 47,587 |
| 4 | Consolidation Allocation | \$ 13,095,714 | \$ | 18,077,359 | \$ | 16,658,279 |
| 5 | Insurance | \$ 1,118,158 | \$ | 541,691 | \$ | 1,214,995 |
| 6 | Lease | \$ 1,705,486 | \$ | 1,944,649 | \$ | 1,757,017 |
| 7 | Travel | \$ 467,779 | _\$ | 298,104 | \$ | 226,145 |
| 8 | OtherExp | \$ 2,418,741 | \$ | 2,203,472 | _\$ | 2,022,912 |
| 9 | Dues&Subs | \$ 786,291 | \$ | 984,607 | \$ | 978,796 |
| 10 | Maintenance | \$ 12,814,602 | \$ | 10,336,422 | \$ | 10,107,699 |
| 11 | Marketing | \$ 817,435 | \$ | 603,679 | \$ | 475,296 |
| 12 | Employee | \$ 296,724 | \$ | 319,636 | \$ | 403,813 |
| | Total Other Expenses | \$ 87,840,480 | \$ | 96,365,062 | \$ | 97,938,058 |

PROJECTED DATA CHART-OTHER EXPENSES

| OTHER EXPENSES CATEGORIES | Y | ear <u>2016</u> | Y | ear <u>2017</u> |
|---------------------------|------------|----------------------|----------|-----------------|
| 1 Allocated expenses | \$ | 232,111 | _\$ | 248,256 |
| 2 | \$ | t | \$ | |
| 3 | \$ | | \$ | |
| Δ | \$ | 5.00 5.00 1.00 | \$ | <u>=</u> |
| 5 | \$ | | \$ | 5. |
| | \$ | | \$ | |
| 6 | \$ | | \$ | |
| 7 | Φ. | 222 111 | <u>Φ</u> | 248,256 |
| Total Other Expenses | <u>. 3</u> | 232,111 | 4 | 240,230 |

September 29, 2014 10:30 am

ATTACHMENT 6 JCMC's Joint Commission Survey



September 29, 2014 10:30 am

Johnson City Medical Center 400 North State of Franklin Rd Johnson City, TN 37604

Organization Identification Number: 7844

Program(s)
Hospital Accreditation
Behavioral Health Care Accreditation

Survey Date(s) 04/02/2012-04/05/2012

Executive Summary

Hospital Accreditation:

As a result of the accreditation activity conducted on the above date(s), Requirements

for Improvement have been identified in your report.

You will have follow-up in the area(s) indicated below:

Evidence of Standards Compliance (ESC)

Behavioral Health Care Accreditation:

As a result of the accreditation activity conducted on the above date(s), there were no Requirements for Improvement identified.

If you have any questions, please do not hesitate to contact your Account Executive.

Thank you for collaborating with The Joint Commission to improve the safety and quality of care provided to patients.

Organization Identification Number: 7844

Page 1 of 18

The Joint Commission Summary of Findings

SUPPLEMENTAL #1

September 29, 2014 10:30 am

Evidence of DIRECT Impact Standards Compliance is due within 45 days from the day this report is posted to your organization's extranet site:

| posted to you | ir organization 3 extranct ofto. | | |
|---------------|----------------------------------|----------|--|
| Program: | Hospital Accreditation Program | | |
| Standards: | EC.02.03.01 | EP1 | |
| | EC.02.03.05 | EP4 | |
| 15 | EM.02.02.15 | EP5 | |
| | LS.02.01.20 | EP1,EP13 | |
| | MM.03.01.03 | EP2 | |
| | NPSG.15.01.01 | EP1 | |
| | PC.01.02.07 | EP1,EP3 | |
| | PC.03.01.07 | EP7 | |
| | UP.01.01.01 | EP1 | |
| | | | |

Evidence of INDIRECT Impact Standards Compliance is due within 60 days from the day this report is posted to your organization's extranet site:

| Program: | Hospital Accreditation Program | | | | | |
|------------|--------------------------------|------|--|--|--|--|
| Standards: | HR.01.04.01 | EP2 | | | | |
| | LD.04.01.01 | EP2 | | | | |
| | LS.02.01.30 | EP2 | | | | |
| | LS.02.01.35 | EP4 | | | | |
| | MS.01.01.01 | EP10 | | | | |
| * | RC.01.01.01 | EP19 | | | | |
| - | RC.01.01.01 | EP19 | | | | |

The Joint Commission Summary of CMS Findings

SUPPLEMENTAL #1

September 29, 2014 10:30 am

CoP:

Text:

§482.24

Tag: A-0431

Deficiency:

Standard

Corresponds to: HAP

§482.24 Condition of Participation: Medical Record Services

The hospital must have a medical record service that has administrative responsibility for medical records. A medical record must be maintained for every individual evaluated or treated in the

hospital.

| CoP Standard | Tag | Corresponds to | Deficiency |
|-------------------|--------|------------------------|------------|
| §482.24(c)(1)(ii) | A-0454 | HAP - RC.01.01.01/EP19 | Standard |

CoP:

§482.41

Tag: A-0700

Deficiency:

Standard

Corresponds to:

HAP

Text:

§482.41 Condition of Participation: Physical Environment

The hospital must be constructed, arranged, and maintained to ensure the safety of the patient, and to provide facilities for diagnosis and treatment and for special hospital services appropriate to the needs of the community.

| CoP Standard | Tag | Corresponds to | Deficiency |
|------------------|--------|---|------------|
| §482.41(b)(1)(i) | A-0710 | HAP - EC.02.03.05/EP4, LS.02.01.20/EP1, EP13, LS.02.01.30/EP2, LS.02.01.35/EP4 | Standard |

CoP:

§482.51

Tag: A-0940

Deficiency:

Standard

Corresponds to:

HAP

Text:

§482.51 Condition of Participation: Surgical Services

If the hospital provides surgical services, the services must be well organized and provided in accordance with acceptable standards of practice. If outpatient surgical services are offered the services must be consistent in quality with inpatient care in accordance with the complexity of

services offered.

| CoP Standard | Tag | Corresponds to | Deficiency |
|--------------|--------|-----------------------|------------|
| §482.51(b) | A-0951 | HAP - EC.02.03.01/EP1 | Standard |

CoP:

§482.52

Tag: A-1000

Deficiency:

Standard

Corresponds to:

Text:

§482.52 Condition of Participation: Anesthesia Services

If the hospital furnishes anesthesia services, they must be provided in a well-organized manner under the direction of a qualified doctor of medicine or osteopathy. The service is responsible for all anesthesia administered in the hospital.

| CoP Standard | Tag | Corresponds to | Deficiency |
|---------------|--------|-----------------------|------------|
| §482.52(b)(3) | A-1005 | HAP - PC.03.01.07/EP7 | Standard |

SUPPLEMENTAL #1 September 29, 2014

Chapter:

Emergency Management

Program:

Hospital Accreditation

Standard:

EM.02.02.15

ESC 45 days

10:30 am

Standard Text:

During disasters, the hospital may assign disaster responsibilities to volunteer practitioners who are not licensed independent practitioners, but who are required

by law and regulation to have a license, certification, or registration.

Note: While this standard allows for a method to streamline the process for verifying identification and licensure, certification, or registration, the elements of performance are intended to safeguard against inadequate care during a disaster.

Primary Priority Focus Area:

Credentialed Practitioners

Element(s) of Performance:

5. Before a volunteer practitioner who is not a licensed independent practitioner is considered eligible to function as a practitioner, the hospital obtains his or her valid government-issued photo identification (for example, a driver's license or passport) and one of the following:



- A current picture identification card from a health care organization that clearly identifies professional designation

- A current license, certification, or registration

- Primary source verification of licensure, certification, or registration (if required by law and regulation in order to practice)

- Identification indicating that the individual is a member of a Disaster Medical Assistance Team (DMAT), the Medical Reserve Corps (MRC), the Emergency System for Advance Registration of Volunteer Health Professionals (ESAR-VHP), or other recognized state or federal response organization or group

- Identification indicating that the individual has been granted authority by a government entity to provide patient care, treatment, or services in disaster circumstances

- Confirmation by hospital staff with personal knowledge of the volunteer practitioner's ability to act as a qualified practitioner during a disaster

Scoring Category : A

Score:

Insufficient Compliance

Observation(s):

Observed in Document Review at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site.

During a review of the hospital disaster privileging requirements for the medical staff it was noted that a valid governmentissued photo identification card was not always required in addition to one of the other listed credentials, for a volunteer practitioner who is not a licensed independent practitioner.

Chapter:

Environment of Care

Program:

Hospital Accreditation

Standard:

EC.02.03.01

ESC 45 days

Standard Text:

The hospital manages fire risks.

Primary Priority Focus Area:

Physical Environment

Organization Identification Number: 7844

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SUPPLEMENTAL #1

September 29, 2014 10:30 am

Element(s) of Performance:

1. The hospital minimizes the potential for harm from fire, smoke, and other products of combustion.



Scoring Category :C

Score:

Partial Compliance

Observation(s):

EP 1

§482.51(b) - (A-0951) - §482.51(b) Standard: Delivery of Service

Surgical services must be consistent with needs and resources. Policies governing surgical care must be designed to assure the achievement and maintenance of high standards of medical practice and patient care.

This Standard is NOT MET as evidenced by:

Observed in Building Tour at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN)

site for the Hospital deemed service.

During the building tour it was observed in elevator mechanical room BK 004 an electrical junction box did not have a cover plate installed and therefore did not minimize the potential for harm from fire and smoke.

Observed in Building Tour at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During the building tour it was observed above the ceiling at door # 1 D 121, an electrical junction box did not have a cover plate installed and therefore did not minimize the potential for harm from fire and smoke.

Chapter:

Environment of Care

Program:

Hospital Accreditation

Standard:

EC.02.03.05

ESC 45 days

Standard Text:

The hospital maintains fire safety equipment and fire safety building features. Note: This standard does not require hospitals to have the types of fire safety equipment and building features described below. However, if these types of equipment or features exist within the building, then the following maintenance,

testing, and inspection requirements apply.

Primary Priority Focus Area:

Physical Environment

Element(s) of Performance:

4. Every 12 months, the hospital tests visual and audible fire alarms, including speakers. The completion date of the tests is documented. Note: For additional guidance on performing tests, see NFPA 72, 1999 edition (Table 7 -3.2).



Scoring Category :C

Score:

Insufficient Compliance

Observation(s):

Organization Identification Number: 7844

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SUPPLEMENTAL #1

September 29, 2014 10:30 am

EP 4

§482.41(b)(1)(i) - (A-0710) - (i) The hospital must meet the applicable provisions of the 2000 edition of the Life Safety Code of the National Fire Protection Association. The Director of the Office of the Federal Register has approved the NFPA 101®2000 edition of the Life Safety Code, issued January 14, 2000, for incorporation by reference in accordance with 5 U.S.C. 552(a) and 1 CFR part 51. A copy of the Code is available for inspection at the CMS Information Resource Center, 7500 Security Boulevard, Baltimore, MD or at the National Archives and Records Administration (NARA). For information on the availability of this material at NARA, call 202-741-6030, or go to: http://www.archives.gov/federal_register/code_of_federal_regulations/ibr_locations.html.

Copies may be obtained from the National Fire Protection Association, 1 Batterymarch Park, Quincy, MA 02269. If any changes in this edition of the Code are incorporated by reference, CMS will publish notice in the Federal Register to announce the changes.

This Standard is NOT MET as evidenced by:

Observed in Document Review at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During the document review it was observed that the hospital did not have documentation that all Audio and Visual devices were tested every 12 months as required by the NFPA. At time of survey there was no documentation of audio / visual device located in room 1628 was tested in 2010 and 2011.

Observed in Document Review at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During the document review it was observed that the hospital did not have documentation that all Audio and Visual devices were tested every 12 months as required by the NFPA. At time of survey there was no documentation of audio / visual device located in room 0934 was tested in 2010 and 2011.

Observed in Document Review at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During the document review it was observed that the hospital did not have documentation that all Audio and Visual devices were tested every 12 months as required by the NFPA. At time of survey there was no documentation of audio / visual device located in room BK 05 was tested in 2010 and 2011.

Chapter:

Human Resources

Program:

Hospital Accreditation

Standard:

HR.01.04.01

Standard Text:

The hospital provides orientation to staff.

Primary Priority Focus Area:

Orientation & Training

Element(s) of Performance:

2. The hospital orients its staff to the key safety content before staff provides care, treatment, and services. Completion of this orientation is documented. (See also EC.02.03.01, EP 10 and IC.01.05.01, EP 6)



SC 60 day

Scoring Category :C

Score:

Partial Compliance

Observation(s):

SUPPLEMENTAL #1

September 29, 2014 10:30 am

ESC 60 day

EP 2

Observed in Individual Tracer at Mountain States Rehabilitation (415 State of Franklin Road, Johnson City, TN) site. It was noted that there was no documented evidence that one contracted housekeeping staff had been oriented to the key safety contents identified by the organization before providing services.

Observed in Tracer Activities at Mountain States Rehabilitation (415 State of Franklin Road, Johnson City, TN) site. It was noted that there was no documented evidence that a second contracted housekeeping staff had been oriented to the key safety contents identified by the organization before providing services.

Chapter:

Leadership

Program:

Hospital Accreditation

Standard:

LD.04.01.01

Standard Text:

The hospital complies with law and regulation.

Primary Priority Focus Area:

Organizational Structure

Element(s) of Performance:

2. The hospital provides care, treatment, and services in accordance with licensure requirements, laws, and rules and regulations.



Scoring Category : A

Score:

Insufficient Compliance

Observation(s):

FP 2

Observed in Individual Tracer at Quillen Rehabilitation Hospital (2511 Wesley Street, Johnson City, TN) site. It was noted that the organization did not comply with CDC's requirement to put the date of the Vaccine Information Statement in the medical records.

Chapter:

Life Safety

Program:

Hospital Accreditation

Standard:

LS.02.01.20



Standard Text:

The hospital maintains the integrity of the means of egress.

Primary Priority Focus Area:

Physical Environment

Element(s) of Performance:

1. Doors in a means of egress are unlocked in the direction of egress. (For full text and any exceptions, refer to NFPA 101-2000: 18/19.2.2.2.4)



Scoring Category : A

Score:

Insufficient Compliance

13. Exits, exit accesses, and exit discharges are clear of obstructions or impediments to the public way, such as clutter (for example, equipment, carts, furniture), construction material, and snow and ice. (For full text and any exceptions, refer to NFPA 101-2000: 7.1.10.1)



Scoring Category :C

Score:

Insufficient Compliance

Organization Identification Number: 7844

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SUPPLEMENTAL #1
September 29, 2014
10:30 am

Observation(s):

EP 1

§482.41(b)(1)(i) - (A-0710) - (i) The hospital must meet the applicable provisions of the 2000 edition of the Life Safety Code of the National Fire Protection Association. The Director of the Office of the Federal Register has approved the NFPA 101®2000 edition of the Life Safety Code, issued January 14, 2000, for incorporation by reference in accordance with 5 U.S.C. 552(a) and 1 CFR part 51. A copy of the Code is available for inspection at the CMS Information Resource Center, 7500 Security Boulevard, Baltimore, MD or at the National Archives and Records Administration (NARA). For information on the availability of this material at NARA, call 202-741-6030, or go to: http://www.archives.gov/federal_register/code_of_federal_regulations/ibr_locations.html.

Copies may be obtained from the National Fire Protection Association, 1 Batterymarch Park, Quincy, MA 02269. If any changes in this edition of the Code are incorporated by reference, CMS will publish notice in the Federal Register to announce the changes.

This Standard is NOT MET as evidenced by:

Observed in Building Tour at Woodridge Psychiatric Hospital (403 N State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During the building tour it was observed at the Woodridge Hospital, 2 exit doors were locked in the means of exit egress and did not meet all of the requirement for allowing locked exits doors. Exit door # 1 was locked with 2 locking devices. A dead bolt lock which needed 1 key to unlock the dead bolt and a maglock which needed another key to unlock the maglock. Once the exit door is open it enters into a courtyard in which the gate is locked with another maglock and the only means of unlocking the gate is with the activation of the fire alarm. Exit door # 2 is the same locking arrangement located on a different wing of the hospital.

EP 13

§482.41(b)(1)(i) - (A-0710) - (i) The hospital must meet the applicable provisions of the 2000 edition of the Life Safety Code of the National Fire Protection Association. The Director of the Office of the Federal Register has approved the NFPA 101®2000 edition of the Life Safety Code, issued January 14, 2000, for incorporation by reference in accordance with 5 U.S.C. 552(a) and 1 CFR part 51. A copy of the Code is available for inspection at the CMS Information Resource Center, 7500 Security Boulevard, Baltimore, MD or at the National Archives and Records Administration (NARA). For information on the availability of this material at NARA, call 202-741-6030, or go to: http://www.archives.gov/federal_register/code_of_federal_regulations/ibr_locations.html.

Copies may be obtained from the National Fire Protection Association, 1 Batterymarch Park, Quincy, MA 02269. If any changes in this edition of the Code are incorporated by reference, CMS will publish notice in the Federal Register to announce the changes.

This Standard is NOT MET as evidenced by:

Observed in Building Tour at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During the building tour it was observed that exit door # 1 located in the boiler room, was blocked with equipment.

Observed in Building Tour at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During the building tour it was observed that exit door # 2 located in the boiler room, was blocked with equipment.

Observed in Building Tour at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During the building tour it was observed that exit door # 3 located in the lower level D mechanical room , was blocked with equipment.

Chapter:

Life Safety

Program:

Hospital Accreditation

Standard:

LS.02.01.30

ESC 60 days

Standard Text:

The hospital provides and maintains building features to protect individuals

from the hazards of fire and smoke.

Organization Identification Number: 7844

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The Joint Commission

SUPPLEMENTAL #1

September 29, 2014 10:30 am

Primary Priority Focus Area: Physical Environment

The Joint Commission

SUPPLEMENTAL #1

September 29, 2014 10:30 am

Element(s) of Performance:

2. All hazardous areas are protected by walls and doors in accordance with NFPA 101 -2000: 18/19.3.2.1. (See also LS.02.01.10, EP 5; LS.02.01.20, EP 18) Hazardous areas include, but are not limited, to the following:



Boiler/fuel-fired heater rooms

- Existing boiler/fuel-fired heater rooms have sprinkler systems, resist the passage of smoke, and have doors with self-closing or automatic-closing devices; or the rooms have 1-hour fire-rated walls and 3/4-hour fire-rated doors.
- New boiler/fuel-fired heater rooms have sprinkler systems and have 1-hour fire-rated walls and 3/4-hour fire-rated doors.

Central/bulk laundries larger than 100 square feet

- Existing central/bulk laundries larger than 100 square feet have sprinkler systems, resist the passage of smoke, and have doors with self-closing or automatic-closing devices; or the laundries have 1-hour fire-rated walls and 3/4-hour fire-rated doors.
- New central/bulk laundries larger than 100 square feet have sprinkler systems and have 1-hour fire-rated walls and 3/4-hour fire-rated doors.

Flammable liquid storage rooms (See NFPA 30-1996:4-4.2.1 and 4-4.4.2)

- Existing flammable liquid storage rooms have 2-hour fire-rated walls with 1 1/2-hour fire-rated doors.
- New flammable liquid storage rooms have sprinkler systems and have 2-hour firerated walls with 1 1/2-hour fire-rated doors.

Laboratories (See NFPA 45-1996 to determine if a laboratory is a 'severe hazard' area)

- Existing laboratories that are not severe hazard areas have sprinkler systems, resist the passage of smoke, and have doors with self-closing or automatic-closing devices; or the laboratories have walls fire rated for 1 hour with 3/4-hour fire-rated doors.
- New laboratories that are not severe hazard areas have sprinkler systems, resist the passage of smoke, and have doors with self-closing or automatic-closing devices.
- Existing laboratories that are severe hazard areas (See NFPA 99-1999: 10-3.1.1) have 2-hour fire-rated walls with 1 1/2-hour fire-rated doors. When there is a sprinkler system, the walls are fire rated for 1 hour with 3/4-hour fire-rated doors.
- New laboratories that are severe hazard areas (See NFPA 99-1999: 10-3.1.1) have sprinkler systems and have 1-hour fire-rated walls with 3/4-hour fire-rated doors.
- Existing flammable gas storage rooms in laboratories have 2-hour fire-rated walls with 1 1/2-hour fire-rated doors. (See NFPA 99-1999: 10-10.2.2)
- New flammable gas storage rooms in laboratories have sprinkler systems and have 2 -hour fire-rated walls with 1 1/2-hour fire-rated doors. (See NFPA 99-1999: 10-10.2.2) Maintenance repair shops
- Existing maintenance repair shops have sprinkler systems, resist the passage of smoke, and have doors with self-closing or automatic-closing devices; or the shops have 1-hour fire-rated walls with at least 3/4-hour fire-rated doors.
- New maintenance repair shops have sprinkler systems and have 1-hour fire-rated walls with 3/4-hour fire-rated doors.

Piped oxygen tank supply rooms (See NFPA 99-1999: 4-3.1.1.2)

- Existing piped oxygen tank supply rooms have 1-hour fire-rated walls with 3/4-hour fire-rated doors.
- New piped oxygen tank supply rooms have sprinkler systems and have 1-hour firerated walls with 3/4-hour fire-rated doors.

Paint shops that are not severe hazard areas

- Existing paint shops that are not severe hazard areas have sprinkler systems, resist the passage of smoke, and have doors with self-closing or automatic-closing devices; or the shops have 1-hour fire-rated walls with 3/4-hour fire-rated doors.
- New paint shops that are not severe hazard areas have sprinkler systems and have 1 -hour fire-rated walls with 3/4-hour fire-rated doors.
 Soiled linen rooms
- Existing soiled linen rooms have sprinkler systems, resist the passage of smoke, and have doors with self-closing or automatic-closing devices; or the rooms have 1-hour

Organization Identification Number: 7844

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SUPPLEMENTAL #1
September 29, 2014

10:30 am

fire-rated walls with 3/4-hour fire-rated doors.

- New soiled linen rooms have sprinkler systems and have 1-hour fire-rated walls with 3/4-hour fire-rated doors.

Storage rooms

- Existing storage rooms for combustible materials larger than 50 square feet have sprinkler systems, resist the passage of smoke, and have doors with self-closing or automatic-closing devices; or the rooms have 1-hour fire-rated walls with 3/4-hour fire-rated doors.
- New storage rooms for combustible materials 50 to 100 square feet are sprinklered, resist the passage of smoke, and have doors with self-closing or automatic-closing devices
- New storage rooms for combustible materials larger than 100 square feet are sprinklered and have 1-hour fire-rated walls with 3/4-hour fire-rated doors.
 Trash collection rooms
- Existing trash collection rooms have sprinkler systems, resist the passage of smoke, and have doors with self-closing or automatic-closing devices; or the rooms have 1-hour fire-rated walls with 3/4-hour fire-rated doors.
- New trash collection rooms are sprinklered and have 1-hour fire-rated walls with 3/4-hour fire-rated doors.

Scoring Category :C

Score:

Partial Compliance

Observation(s):

FP 2

§482.41(b)(1)(i) - (A-0710) - (i) The hospital must meet the applicable provisions of the 2000 edition of the Life Safety Code of the National Fire Protection Association. The Director of the Office of the Federal Register has approved the NFPA 101®2000 edition of the Life Safety Code, issued January 14, 2000, for incorporation by reference in accordance with 5 U.S.C. 552(a) and 1 CFR part 51. A copy of the Code is available for inspection at the CMS Information Resource Center, 7500 Security Boulevard, Baltimore, MD or at the National Archives and Records Administration (NARA). For information on the availability of this material at NARA, call 202-741-6030, or go to: http://www.archives.gov/federal_register/code_of_federal_regulations/libr_locations.html.

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This Standard is NOT MET as evidenced by:

Observed in Building Tour at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During the building tour it was observed that the soiled utility room door located in the PACU department, did not close and latch properly.

Observed in Tracer Activities at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During a tour of the Ambulatory Surgery area, it was observed that the door to the Soiled Holding Room did not close and latch properly.

Chapter:

Life Safety

Program:

Hospital Accreditation

Standard:

LS.02.01.35

ESC 60 days

Standard Text:

The hospital provides and maintains systems for extinguishing fires.

Primary Priority Focus Area:

Physical Environment

Organization Identification Number: 7844

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SUPPLEMENTAL #1
September 29, 2014

Element(s) of Performance:

4. Piping for approved automatic sprinkler systems is not used to support any other item. (For full text and any exceptions, refer to NFPA 25-1998: 2-2.2)



10:30 am

Scoring Category :C

Score:

Partial Compliance

Observation(s):

EP 4

§482.41(b)(1)(i) - (A-0710) - (i) The hospital must meet the applicable provisions of the 2000 edition of the Life Safety Code of the National Fire Protection Association. The Director of the Office of the Federal Register has approved the NFPA 101®2000 edition of the Life Safety Code, issued January 14, 2000, for incorporation by reference in accordance with 5 U.S.C. 552(a) and 1 CFR part 51. A copy of the Code is available for inspection at the CMS Information Resource Center, 7500 Security Boulevard, Baltimore, MD or at the National Archives and Records Administration (NARA). For information on the availability of this material at NARA, call 202-741-6030, or go to: http://www.archives.gov/federal_register/code_of_federal_regulations/ibr_locations.html.

Copies may be obtained from the National Fire Protection Association, 1 Batterymarch Park, Quincy, MA 02269. If any changes in this edition of the Code are incorporated by reference, CMS will publish notice in the Federal Register to announce the changes.

This Standard is NOT MET as evidenced by:

Observed in Building Tour at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During the building tour it was observed that cables were tie wrapped to the sprinkler pipping located in the lower level D mechanical room.

Observed in Building Tour at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During the building tour it was observed that cables and a/c duct, were laying across the sprinkler pipping above the ceiling at door # 7000.

Chapter:

Medical Staff

Program:

Hospital Accreditation

Standard:

MS.01.01.01



Standard Text:

Medical staff bylaws address self-governance and accountability to the governing

body.

Primary Priority Focus Area:

Organizational Structure

Element(s) of Performance:

10. The organized medical staff has a process which is implemented to manage conflict between the medical staff and the medical executive committee on issues including, but not limited to, proposals to adopt a rule, regulation, or policy or an amendment thereto. Nothing in the foregoing is intended to prevent medical staff members from communicating with the governing body on a rule, regulation, or policy adopted by the organized medical staff or the medical executive committee. The governing body determines the method of communication.



Scoring Category :A

Score:

Insufficient Compliance

Observation(s):

Organization Identification Number: 7844

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SUPPLEMENTAL #1

September 29, 2014 10:30 am

EP 10

Observed in Document Review at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site.

The existing medical staff bylaws do not include a process to manage conflict between the medical staff and the medical executive committee. New medical staff bylaws have been written and are almost ready for submission for approval.

Chapter:

Medication Management

Program:

Hospital Accreditation

Standard:

MM.03.01.03

ESC 45 days

Standard Text:

The hospital safely manages emergency medications.

Primary Priority Focus Area:

Medication Management

Element(s) of Performance:

2. Emergency medications and their associated supplies are readily accessible in patient care areas. (See also PC.03.01.01, EP 8)



Scoring Category : A

Score:

Insufficient Compliance

Observation(s):

FP 2

Observed in Building Tour at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site

During a tour of the MRI and C[']T imaging department it was noted that the pediatric crash cart did not contain a Broselow tape as required by the color coded cart.

Another pediatric crash cart from another department contained the 2007B edition while the current Broselow tape is now a 2011 edition.

Chapter:

National Patient Safety Goals

Program:

Hospital Accreditation

Standard:

NPSG.15.01.01



Standard Text:

Identify patients at risk for suicide.

Note: This requirement applies only to psychiatric hospitals and patients being

treated for emotional or behavioral disorders in general hospitals.

Primary Priority Focus Area:

Assessment and Care/Services

Element(s) of Performance:

1. Conduct a risk assessment that identifies specific patient characteristics and environmental features that may increase or decrease the risk for suicide.



Scoring Category :C

Score:

Insufficient Compliance

Observation(s):

Supplemental #1
September 29, 2014

10:30 am

EP 1

Observed in Individual Tracer at Woodridge Psychiatric Hospital (403 N State of Franklin Road, Johnson City, TN) site. There was no documentation that a risk assessment that identifies specific patient characteristics and environmental features that may increase or decrease the risk for suicide had been completed for this patient who had been involuntarily committed to the impatient unit, then transferred to the dual diagnosis unit.

Observed in Tracer Activities at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site.

During the tour of the Pediatric ED, screening for suicide was completed on patients, but there was no evidence of a risk assessment that identifies specific patient characteristics and environmental features that may increase or decrease the risk for suicide. The room used for these patients was not able to provide the safety needed to house a potentially suicidal patient. Leadership explained that a patient with this diagnosis would be moved to the main ED, however staff did not seem to be aware of this process.

Observed in the Emergency Department at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site.

During an individual patient tracer it was noted that there had not been a risk assessment completed that identified specific environmental features that may increase or decrease the risk for suicide.

Chapter:

National Patient Safety Goals

Program:

Hospital Accreditation

Standard:

UP.01.01.01

ESC 45 days

Standard Text:

Conduct a preprocedure verification process.

Primary Priority Focus Area:

Information Management

Element(s) of Performance:

1. Implement a preprocedure process to verify the correct procedure, for the correct patient, at the correct site.

1

Note: The patient is involved in the verification process when possible.

Scoring Category :A

Score:

Insufficient Compliance

Observation(s):

EP 1

Observed in Document Review at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site.

During a review of the printed operating room schedule for Day 2 of the survey it was noted that an "open lung biopsy thoracotomy" was scheduled with no documentation of left or right chest.

Chapter:

Provision of Care, Treatment, and Services

Program:

Hospital Accreditation

Standard:

PC.01.02.07

ESC 45 days

Standard Text:

The hospital assesses and manages the patient's pain.

Primary Priority Focus Area:

Assessment and Care/Services

SUPPLEMENTAL #1

September 29, 2014 10:30 am

Element(s) of Performance:

1. The hospital conducts a comprehensive pain assessment that is consistent with its scope of care, treatment, and services and the patient's condition. (See also PC.01.02.01, EP 2; RI.01.01.01, EP 8)



Scoring Category :C

Score:

Partial Compliance

3. The hospital reassesses and responds to the patient's pain, based on its reassessment criteria.



Scoring Category :C

Score:

Insufficient Compliance

Observation(s):

Observed in Individual Tracer at Woodridge Psychiatric Hospital (403 N State of Franklin Road, Johnson City, TN) site. There was no documentation that a pain assessment had been completed for this patient admitted to the Poplar unit.

Observed in Individual Tracer at Regional Cancer Center at JCMC (1 Professional Park Drive, Suite 21, Johnson City,

There was no documentation that a pain assessment had been completed for a patient with a history of chronic pain who was admitted to the IOP.

EP 3

Observed in Record Review at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City,

During a closed record review of a pediatric patient undergoing sedation for a fractured arm in the Pediatric ED, there was not evidence of a pain reassessment by the nurse caring for the patient.

Observed in the Post Partum Unit at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site.

During an individual patient tracer it was noted that the patient had not had their pain reassessed after undergoing a circumcision or before being discharged form the hospital several hours after the procedure.

Observed in the Post Partum Unit at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site.

During an individual patient tracer it was noted in a second record that the patient had not had their pain reassessed after undergoing a circumcision.

Chapter:

Provision of Care, Treatment, and Services

Program:

Hospital Accreditation

Standard:

PC.03.01.07

ESC 45 days

Standard Text:

The hospital provides care to the patient after operative or other high-risk procedures and/or the administration of moderate or deep sedation or anesthesia.

Primary Priority Focus Area: Assessment and Care/Services

SUPPLEMENTAL #1

September 29, 2014 10:30 am

Element(s) of Performance:

7. For hospitals that use Joint Commission accreditation for deemed status purposes:
A postanesthesia evaluation is completed and documented by an individual qualified to administer anesthesia no later than 48 hours after surgery or a procedure requiring anesthesia services.

Scoring Category :A

Score:

Insufficient Compliance

Observation(s):

EP 7

§482.52(b)(3) - (A-1005) - [The policies must ensure that the following are provided for each patient:]

(3) A postanesthesia evaluation completed and documented by an individual qualified to administer anesthesia, as specified in paragraph (a) of this section, no later than 48 hours after surgery or a procedure requiring anesthesia services. The postanesthesia evaluation for anesthesia recovery must be completed in accordance with State law and with hospital policies and procedures that have been approved by the medical staff and that reflect current standards of anesthesia care.

This Standard is NOT MET as evidenced by:

Observed in Individual Tracer at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City,

TN) site for the Hospital deemed service.

During an individual tracer on a nephrology patient on 5500, a review was completed on a surgical procedure she had related to access for dialysis. There was no evidence of a postanesthesia evaluation on the record. This patient had the surgery greater that 48 hours in the past.

Observed in Record Review at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City,

TN) site for the Hospital deemed service.

During review of a closed record it was noted that a post anesthesia evaluation had not been documented as completed on a patient who had undergone anesthesia for a Cesarean Section.

Observed in Individual Tracer at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City,

TN) site for the Hospital deemed service.

During a general surgery patient tracer it was noted that the postanesthesia evaluation was blank although signed, dated, and timed.

Observed in Individual Tracer at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City,

TN) site for the Hospital deemed service.

During an orthopedic surgery patient tracer it was noted that the postanesthesia evaluation was not done after more than 48 hours post-op.

Chapter:

Record of Care, Treatment, and Services

Program:

Hospital Accreditation

Standard:

RC.01.01.01

ESC 60 days

Standard Text:

The hospital maintains complete and accurate medical records for each individual

patient.

Primary Priority Focus Area:

Assessment and Care/Services

Organization Identification Number: 7844

Page 16 of 18

SUPPLEMENTAL #1

September 29, 2014 10:30 am

Element(s) of Performance:

19. For hospitals that use Joint Commission accreditation for deemed status purposes: All entries in the medical record, including all orders, are timed.



Scoring Category :C

Score:

Insufficient Compliance

Observation(s):

EP 19

§482.24(c)(1)(ii) - (A-0454) - (ii) For the 5 year period following January 26, 2007, all orders, including verbal orders, must be dated, timed, and authenticated by the ordering practitioner or another practitioner who is responsible for the care of

§482.12(c) and authorized to write orders by hospital policy in accordance with State law.

This Standard is NOT MET as evidenced by:

Observed in Record Review at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During a closed record review of a patient receiving sedation in the ED at Johnson City Medical Center, a note was signed by the nurse, but not dated or timed.

Observed in Record Review at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During a closed chart review of patient in the Pediatric ED undergoing sedation for a forearm fracture, nurse entries were entered, authenticated, but not dated and timed.

Observed in Record Review at Johnson City Medical Center Hospital (400 North State of Franklin Road, Johnson City, TN) site for the Hospital deemed service.

During closed record review of a 12 year old patient in the Pediatric ED for a fractured arm. The patient had sedation in the ED to reduce the fracture. On the physician order sheet, there was an MD signature and date and no time noted. Time was not recorded on the nursing care plan and sedation record.

The Joint Commission

SUPPLEMENTAL #1

September 29, 2014 10:30 am

Organization Identification Number: 7844

SUPPLEMENTAL #1

September 29, 2014 10:30 am

ATTACHMENT 7
Signed Affidavit



September 29, 2014 10:30 am

AFFIDAVIT

| STATE OF TENNESSEE |
|---|
| COUNTY OF Washington |
| NAME OF FACILITY: <u>Johnson City Medical Center, Princeton Transitional Care</u> |
| I, Grace Pereira, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete. |
| Sworn to and subscribed before me, a Notary Public, this the 20 day of September, 20 ly, witness my hand at office in the County of Woshungton, State of Tennessee. NOTARY PUBLIC My commission expires 9/29, 205. |

HF-0043

Revised 7/02



State of Tennessee

Health Services and Development Agency

Frost Building, 3rd Floor, 161 Rosa L. Parks Boulevard, Nashville, TN 37243 www.tn.gov/hsda Phone: 615-741-2364/Fax: 615-741-9884

September 24, 2014

Allison Rogers VP of Strategic Planning 303 Med Tech Parkway, Suite #330 Johnson City, TN 37604

RE:

Certificate of Need Application CN1409-039

Mountain States Health Alliance/Johnson City Medical Center

Dear Ms. Rogers:

This will acknowledge our September 15, 2014 receipt of your application for a Certificate of Need for the relocation of 34 skilled nursing facility beds from Princeton Transitional Care located at 2511 Wesley Street, Johnson City (Washington County), TN 37601 to Johnson City Medical Center located at 400 North State of Franklin Road, Johnson City (Washington County), TN 37604.

Several items were found which need clarification or additional discussion. Please review the list of questions below and address them as indicated. The questions have been keyed to the application form for your convenience. <u>I should emphasize that an application cannot be deemed complete and the review cycle begun until all questions have been answered and furnished to this office.</u>

<u>Please submit responses in triplicate by 12:00 p.m., Monday, September 29, 2014.</u> If the supplemental information requested in this letter is not submitted by or before this time, then consideration of this application may be delayed into a later review cycle.

1. Section A, Applicant Profile, Item 5 (Management/Operating Entity)

A non-binding letter of intent for management services from Signature Healthcare in Attachment 1 is noted. Please complete Item 5 of the application and resubmit page 4.

Please attach a copy of the draft management agreement that at least includes the anticipated scope of management services to be provided, the anticipated term of the agreement, and the anticipated management fee payment methodology and schedule.

Please describe the management entity's experience in providing management services for this type of facility, which is the same or similar to the applicant facility. Please also describe the ownership structure of the management entity.

2. Section A, Applicant Profile, Item 13

New TennCare Managed Care Contract with the Bureau of TennCare will take effect January 1, 2015 with full statewide implementation for AmeriGroup, BlueCare Tennessee and United Healthcare. Please indicate the stages of contract discussions with each MCO for these new contracts.

3. Section A, Project Description, Item I

The applicant has requested consent calendar for this project. Please address the reason consent calendar is being requested as it relates to each of the following: 1) Need, 2) Economic Feasibility, and the 3) Orderly development to health care.

What are the current and proposed plans for Franklin Transitional Care (13 beds).

4. Section B, Project Description, Item 11.A. and II.B.

The applicant notes total construction cost of \$18,000 or \$1.26 PSF. However, the Project Costs Chart construction cost is \$10,500 which calculates to .73 cents cost per square foot. Please revise and submit a replacement page and also square footage and cost per square footage chart.

The notation of 13 FTC SNF beds in the table of page 9 as being suspended is noted. However, please clarify what is meant as being "suspended".

5. Section B, (Project Description) Item III (Plot Plan)

Please submit a revised plot plan that indicates the location of the applicant's structure and size (acres).

6. Section C, Need Item 2.b. (Specific Criteria -Construction, Renovation, Expansion, and Replacement)

The Princeton Transitional Care Volume chart is noted. However, please clarify how the applicant expects to achieve 9,516 patient days in Year One while patient days have been in decline from 11,131 days in 2010 to 8,839 in 2014.

7. Section C, Need Item 4(a) 4.(b) (Specific Criteria -Construction, Renovation, Expansion, and Replacement)

The applicant has provided a practical need to change the proposed new site. As directed, please also provide some significant legal and financial need.

Please clarify if patient costs will increase as a result of the proposed relocation.

8. Section C, Need Item 2

Please indicate how the Certificate of Need process is related to the applicant's long-range development plans. If applicable, a brief background of previously approved CON projects related to this proposed project would be helpful.

9. Section C, Need Item 4.A

Your response to this item is noted. Using population data from the Department of Health, enrollee data from the Bureau of TennCare, and demographic information from the US Census Bureau, please complete the following table and include data for each county in your proposed service area.

| Variable | Washington | Carter | Sullivan | Unicoi | Greene | Johnson | Service Area | Tennessee |
|---|------------|--------|----------|--------|--------|---------|--------------|-----------|
| Current Year (2014), Age 65+ | | | | | | | | |
| Projected Year (2018), Age 65+ | | | | | | | | |
| Age 65+, % Change | | | | | | | | |
| Age 65+, % Total (PY) | | | | | | | | |
| CY, Total Population | | | | | | | | |
| PY, Total Population | | | | | | | | |
| Total Pop. % Change | | | | | | | | |
| TennCare Enrollees | | | | | | | | |
| TennCare Enrollees as a % of Total Population | | | | | | | | |
| Median Age | | | | | | | | |
| Median Household Income | | | | | | | | |
| Population % Below Poverty Level | | | | | | | | |

10. Section C. Need, Item 6

The tables showing utilization of the new facility are noted. Please provide a composite snapshot from the tables in the response by condensing the information into the table below:

Applicant Facility- Historical and Projected Utilization

* Includes Medicare/Medicaid certified beds

| Year | Licensed Beds | *Medicare- certified beds | SNF Medicare ADC | Other skilled | Non skilled | Total ADC | Licensed Occupancy % |
|---------|---------------|------------------------------|---------------------|------------------|----------------|--------------|----------------------|
| | | | | ADC | ADC | | , , |
| 2011 | | | | | | | |
| 2012 | | | | | | | |
| 2013 | | | | | | | |
| Year 1- | | | | | | | |
| Year 2- | | | | | | | |

11. Section C. Economic Feasibility 1 (Project Cost Chart)

The cost of any lease (building, land, and/or equipment) should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater. Please indicate the fair market value of the property as it relates to the proposed project.

Please clarify if there are any moving and set-up costs associated with the proposed relocation.

12. Section C. Economic Feasibility 3

The applicant notes total construction cost of \$18,000 or \$1.26 PSF. However, the Project Costs Chart construction cost is \$10,500 which calculates to .73 cents cost per square foot. Please revise and resubmit a replacement page.

Please refer to the following HSDA web-site and compare the renovation costs to approved hospital project construction costs between 2011-2013.

http://tennessee.gov/hsda/applicants_tools/docs/Construction%20Cost%20Per%20Square%20Foot%20charts.pdf

13. Section C. Economic Feasibility Item 4 (Historical Data Chart and Projected Data Chart)

The HSDA is utilizing more detailed Historical and Projected Data Charts. Please complete the revised information Historical and Projected Data Charts provided at the end of this requests for supplemental information. Please note that "Management Fees to Affiliates" should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. "Management Fees to Non-Affiliates" should also include any management fees paid by agreement to third party entities not having common ownership with the applicant. Management fees should not include expense allocations for support services, e.g., finance, human resources, information technology, legal, managed care, planning marketing, quality assurance, etc. that have been consolidated/centralized for the subsidiaries of a parent company.

There appears to be calculation errors in the Historical Data Chart for years 2012, 2013, and 2014. Please recheck all figures when transitioning figures to the new historical data chart located at the end of this document.

14. Section C. Economic Feasibility, Item 8

The applicant expects losses in Year One and Year Two of the proposed project. Please indicate when the applicant expects to break-even.

15. Section C. Economic Feasibility 9

The breakdown of TennCare/Medicaid and Medicare revenue for 2014 is noted. However, please direct the response of the question to Year One of the proposed project and resubmit.

16. Section C. Orderly Development, Item 7 (b)

Please provide a copy of the latest Joint Commission survey.

In accordance with Tennessee Code Annotated, §68-11-1607(c) (5), "...If an application is not deemed complete within sixty (60) days after written notification is given to the applicant by the agency staff that the application is deemed incomplete, the application shall be deemed void." For this application the sixtieth (60th) day after written notification is November 21, 2014. If this application is not deemed complete by this date, the application will be deemed void. Agency Rule 0720-10-.03(4) (d) (2) indicates that "Failure of the applicant to meet this deadline will result in the application being considered withdrawn and returned to the contact person. Resubmittal of the application must be accomplished in accordance with Rule 0720-10-.03 and requires an additional filing fee." Please note that supplemental information must be submitted timely for the applicant intends to enter, even if that time is less than the sixty (60) days allowed by the statute. The supplemental information must be submitted with the enclosed affidavit, which shall be executed and notarized; please attach the notarized affidavit to the supplemental information.

If all supplemental information is not received and the application officially deemed complete prior to the beginning of the <u>next review cycle</u>, then consideration of the application could be delayed into a later review cycle. The review cycle for each application shall begin on the first day of the month after the application has been deemed complete by the staff of the Health Services and Development Agency.

Any communication regarding projects under consideration by the Health Services and Development Agency shall be in accordance with T.C.A. \Rightarrow 68-11-1607(d):

- (1) No communications are permitted with the members of the agency once the Letter of Intent initiating the application process is filed with the agency. Communications between agency members and agency staff shall not be prohibited. Any communication received by an agency member from a person unrelated to the applicant or party opposing the application shall be reported to the Executive Director and a written summary of such communication shall be made part of the certificate of need file.
- (2) All communications between the contact person or legal counsel for the applicant and the Executive Director or agency staff after an application is deemed complete and placed in the review cycle are prohibited unless submitted in writing or confirmed in writing and made part of the certificate of need application file. Communications for the purposes of clarification of facts and issues that may arise after

Ms. Allison Rogers September 24, 2014 Page 6

an application has been deemed complete and initiated by the Executive Director or agency staff are not prohibited.

Should you have any questions or require additional information, please do not hesitate to contact this office.

Sincerely,

Phillip M. Earhart HSD Examiner

Slutle M Garhar

HISTORICAL DATA CHART

| Give information for the last three | (3) years for which complete data are available for the facility or |
|-------------------------------------|---|
| agency. The fiscal year begins in | (Month). |

| | | | Year | Year | Year |
|-----|------|--|---------------|------|-----------|
| A. | Util | lization Data (Specify unit of measure) | 7 | | |
| B. | Rev | venue from Services to Patients | | | |
| | 1. | Inpatient Services | \$ | \$ | \$ |
| | 2. | Outpatient Services | a | | |
| | 3. | Emergency Services | | | |
| | 4. | Other Operating Revenue (Specify) | | | - 7 |
| | | Gross Operating Revenue | \$ | \$ | \$ |
| C. | Dec | luctions from Gross Operating Revenue | | | |
| | 1. | Contractual Adjustments | \$ | \$ | \$ |
| | 2. | Provision for Charity Care | | | |
| | 3. | Provisions for Bad Debt | | - | |
| | | Total Deductions | \$ | \$ | \$ |
| NE' | г ор | PERATING REVENUE | \$ | \$ | \$ |
| D. | Оре | erating Expenses | | | |
| | 1. | Salaries and Wages | \$ | \$ | \$ |
| | 2. | Physician's Salaries and Wages | | | |
| | 3. | Supplies | | | |
| | 4. | Taxes | ·= | - | |
| | 5. | Depreciation | = | - | |
| | 6. | Rent | ; | | |
| | 7. | Interest, other than Capital | a | : | |
| | 8. | Management Fees: | | | |
| | | a. Fees to Affiliates | <u> </u> | | |
| | | b. Fees to Non-Affiliates | ****** | | |
| | 9. | Other Expenses – Specify on separate page 14 | 3 | | |
| | | Total Operating Expenses | \$ | \$ | \$ |
| E. | Oth | er Revenue (Expenses) – Net (Specify) | \$ | \$ | \$ |
| NE' | Г ОР | ERATING INCOME (LOSS) | \$ | \$ | \$ |
| F. | Cap | ital Expenditures | | | |
| | 1. | Retirement of Principal | \$ | \$ | \$ |
| | 2. | Interest | | | |
| | | Total Capital Expenditures | \$ | \$ | \$ |
| NE. | г ор | ERATING INCOME (LOSS) | | | |
| | | APITAL EXPENDITURES | \$ | \$ | <i>\$</i> |

PROJECTED DATA CHART

| Giv in_ | | formation for the two (2) years following the completion of the(Month). | nis proposal. | The fiscal year begin |
|------------|------|---|---------------|-----------------------|
| | | | Year | Year |
| A. | Uti | ilization Data (Specify unit of measure) | | |
| B. | Re | venue from Services to Patients | | |
| | 1. | Inpatient Services | \$ | \$ |
| | 2. | Outpatient Services | | |
| | 3. | Emergency Services | | |
| | 4. | Other Operating Revenue (Specify) | , | ±8 0 |
| | | Gross Operating Revenue | \$ | \$ |
| C. | De | ductions from Gross Operating Revenue | | |
| | 1. | Contractual Adjustments | \$ | \$ |
| | 2. | Provision for Charity Care | | |
| | 3. | Provisions for Bad Debt | · | |
| | | Total Deductions | \$ | \$ |
| NE' | г ор | PERATING REVENUE | \$ | \$ |
| D. | Op | erating Expenses | | |
| | 1. | Salaries and Wages | \$ | \$ |
| | 2. | Physician's Salaries and Wages | | -o o- |
| | 3. | Supplies | | |
| | 4. | Taxes | 4 | |
| | 5. | Depreciation | | =0 <u>9</u> ; |
| | 6. | Rent | | -: |
| | 7. | Interest, other than Capital | - | |
| | 8. | Management Fees: | | |
| | | a. Fees to Affiliates | | - - |
| | • | b. Fees to Non-Affiliates | | = 3====0 |
| | 9. | Other Expenses – Specify on separate page 14 | | - |
| _ | | Total Operating Expenses | \$ | |
| Е. | | er Revenue (Expenses) Net (Specify) | \$ | \$ |
| | | ERATING INCOME (LOSS) | \$ | \$ |
| F. | _ | pital Expenditures | | |
| | 1. | Retirement of Principal | \$ | \$ |
| | 2. | Interest | - | |
| | | Total Capital Expenditures | \$ | S |

NET OPERATING INCOME (LOSS)

| Ms. Allison Rogers |
|--------------------|
| September 24, 2014 |
| Page 9 |

| T | PSS | CA | PIT | AT. | EXPEND | TTTIR | TIS |
|----|-----|----|-----|---------------|-----------|-------|-----|
| ж. | | LA | | 1 II / | PARE PURE | | |

| \$ | \$ |
|----|----|
| Ψ | Ψ |

HISTORICAL DATA CHART-OTHER EXPENSES

| OTHER EXPENSES CATEGORIES | Year | Year | Year |
|-----------------------------|-------------|---------------|---|
| 1. | \$ | \$ | \$ |
| 2. | - | 0 | 1 <u></u> 8 |
| 3, | | ò | ÷====== |
| 4. | <u> </u> | | |
| 5. | 7 | | 9 55 9 |
| 6, | | \ | :====================================== |
| 7, | | 8 | : |
| Total Other Expenses | \$ | \$ | <i>\$</i> |

PROJECTED DATA CHART-OTHER EXPENSES

| OTHER EXPENSES CATEGORIES | Year | Year |
|---------------------------|---------------|---------------|
| 1. | \$ | \$ |
| 2. | - | |
| 3. | 8 | - |
| 4. | 8=========== | ; |
| 5. | A | |
| 6. | 3 | |
| 7. | | - |
| Total Other Expenses | \$ | \$ |